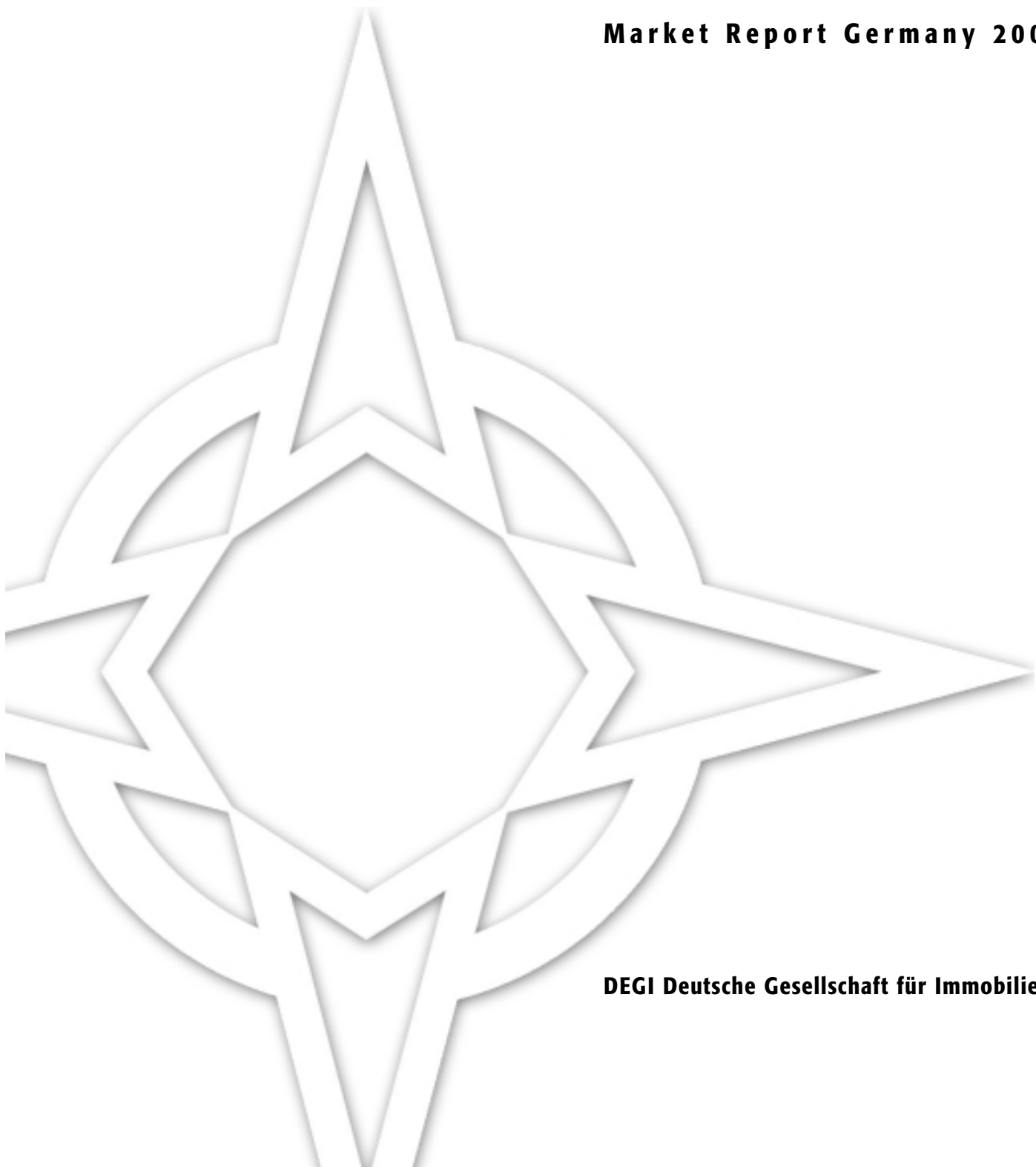


Research & Consulting

New Perspectives

Market Report Germany 2004



DEGI Deutsche Gesellschaft für Immobilienfonds

New Perspectives

Market Report 2004

- Manager:** Dr. Thomas Beyerle
- Authors:** Susanne Giesemann (geography graduate)
Markus Hang (geography graduate)
Patrick Mecking (economics graduate)
Isabel Ohlmann (geography graduate)
Claudia Wenzel (geography graduate)
- Telephone:** +49 (0) 69/2 63-5 12 94
Telefax: +49 (0) 69/2 63-5 17 65
E-Mail: research@degi.com
Internet: www.degi.com
- Publisher:** DEGI
Deutsche Gesellschaft für Immobilienfonds mbH
Weserstraße 54, 60329 Frankfurt am Main
- Managing Directors:** Bärbel Schomberg (Speaker)
Michael Determann
Malcolm Ross Morgan
Werner Oellers

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Foreword

In the first few months of this year, the economic press spoke of an upswing and a change of trend. Indeed, for 2004 in general, we expect more optimistic sentiment in the economy, good financial conditions, the prospect of rising sales and a need to catch up in replacement expenditure which will stimulate demand for capital goods. Yet all this will have only a limited impact on the real estate market. It should also be doubted whether the implementation of the reforms laws that have been passed will lead to a marked revival in private consumption. The consumer demand of private households will continue to be the “sore point” of the whole economic cycle. Thus, the economy remains vulnerable.

Against the backdrop of this mixed bag of factors, there is an imbalance at present on the German office property markets between the supply and demand sides which is still leading to rising vacancy rates and declining rentals.

In the near future, too, new leasings will chiefly be undertaken for rationalization reasons and not for the purposes of expansion. This basic market dynamic – in conjunction with a continuing economic recovery – will generate from 2005 on a growing demand for office

space and induce a turnaround in rental development change.

In this phase of market orientation, the present market report “New Perspectives 2004” will provide a useful source of information. The focus of our comprehensive analysis is on real estate centers of national importance and also a fundamental review of the regional markets. The topics of this market report comprise both the office properties as such and also the asset class real estate. Despite the increasing importance of globally-oriented investments, the domestic market of Germany is, as it was before, a solid basis for investors. The individual profiles of local market-segments and their rapid change render a permanent market analysis and forecast absolutely necessary.

In the following market report of DEGI Research we wish to present to you our findings.



Bärbel Schomberg



Dr. Thomas Beyerle

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THE MARKET FOR OFFICE PROPERTY

Office centers – letting market

Office centers – letting market

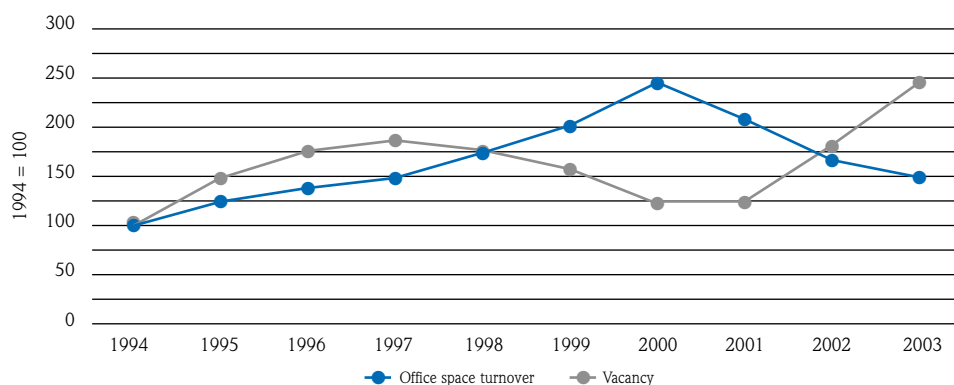
Due to the gloomy situation of the economic cycle, an imbalance between supply and demand currently prevails on the German office property markets. The outcome is a rise in vacancy rates and a decline in rent levels. And in the near future, new leasing will be mainly for the sake of rationalization and not for expansion. From 2006 on, we expect a growing demand for office space as a result of an economic revival, accompanied by a change of trend in rent development.

The total turnover in space of the major German office markets was in decline for the third year in succession. The volume of letting business fell to the level of the year 1997. However, the decline in space turnover began to slow compared with the years before; in some locations, the situation now seems to have bottomed out. Most new rentals currently involve exchange of space, e.g. in the course of combining locations. The broad supply of

less expensive space has motivated many firms to move into new premises of higher quality in technical equipment and fit-out. The efforts of businesses to cut costs and reduce manpower are leading to a need for less space. Additional renting of space, due for example to corporate enlargements, are the exception. Net space of absorption is therefore low, and in some locations, even negative. This means, on balance, that more space is being given up than newly occupied.

Observation of real estate markets in city comparison shows considerable differences among the individual markets. The internationally important economic centers Frankfurt and Munich record also the highest levels of space turnover. Compared with the previous year, the development showed a decline almost everywhere, with only a few markets evincing a slight recovery. Space turnovers in 2003 were generally below the ten-year average. Only in Cologne was there a visible rise in the turnover level in the last few years.

Index of office space turnover and vacancy levels



Index for the locations Berlin, Dresden, Düsseldorf, Frankfurt, Hamburg, Cologne, Leipzig, Munich, Stuttgart

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Space turnover

	Turnover 2003 in m ²	Change 2003/2002 in %	10 year average in m ²	10 year average in % of space stock
Berlin	370,000	-14.0	405,500	2.32
Dresden	55,000	-2.7	78,150	3.40
Düsseldorf	253,000	-24.9	248,000	4.77
Frankfurt	510,000	10.9	535,000	4.71
Hamburg	300,000	-6.3	317,500	2.50
Cologne	150,000	-6.3	119,500	1.84
Leipzig	76,000	-2.6	93,000	2.78
Munich	500,000	-1.2	564,100	3.28
Stuttgart	149,000	12.0	159,200	2.28

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More even than the total stock of office space, the longer-term turnover development serves as an indicator for the position of an office location in city comparison. After Frankfurt and Munich, the Berlin, Hamburg and Düsseldorf office centers have a significant market volume, even in international comparison. The high turnovers in proportion to the total stock of office space point to an above-average market dynamic in the Frankfurt and Düsseldorf locations in recent years. In both cities around 5 % of the total stock of office space was let each year. This means, mathematically, that within 20 years every unit of space was newly let.

The level of office completions in 2003 was still high, despite the declining tendency. In the newly researched office property markets about 2.2 million m² of office space was completed. Locations where construction activity was particularly brisk (in relation to the stock of space) were Düsseldorf, Frankfurt and Munich. The major part of the projects was initiated in the boom years 2000 and 2001 and reflected the optimistic forecasts for the

German office property markets at that time. These properties have come onto the market at a time of currently weak demand. In the year 2004, the volume of completions will be substantially lower. Pressure on the supply side caused by new building projects will thereby diminish.

Since the beginning of the market downturn in the year 2001, vacancy rates have climbed drastically. The high percentage increases in the rates of 2002 and 2003 also express the low starting points of those rates in west German locations, which in some cases were only just one percentage point of all the stock of space. Last year, the increase on the supply side continued, with the result that the vacancy rate of most locations is now above the top level of the last market cycle.

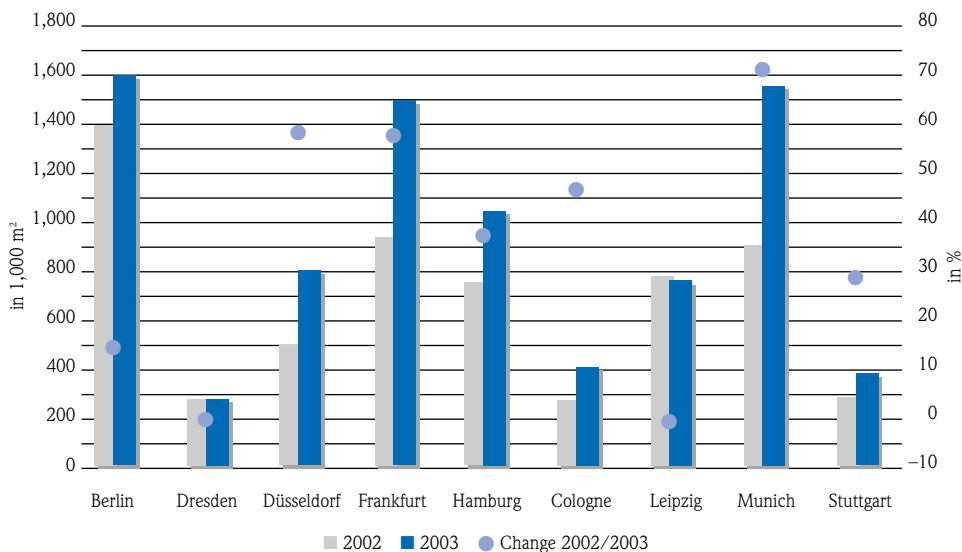
The supply overhang in 2004 will again increase slightly or consolidate at a high level. True, the volume of new construction is falling, but there is still an absence of demand stimulus which could help to reduce that surplus.

In comparison with the last market cycle, there is also a widening of the residual base of vacant premises, i. e. an increase in the space that even with a market upturn would be difficult to let. In the longer term, this will lead to the removal of “old space” from the existing stock.

Unoccupied space in some locations at the beginning of 2004 totalled more than 1 million m². In this, the vacancy rates have in some cases clearly exceeded the 10% mark. Locations with the big stocks of office space, irrespective of their quality and market dynamism, display relatively moderate vacancy rates. Hence it seems more meaningful to consider the supply overhang in relation to space turnover in the course of several years.

Thus, Frankfurt's high vacancy rate, for example, is relativized in view of the above-average high turnovers. Therefore, in comparison with the smaller office property markets such as Stuttgart or Cologne, Frankfurt can be expected, on average, to reduce about three or four times the quantity of vacant premises in one year. One must also assume, depending on market dynamics, that the individual office markets that have varyingly high vacancy rates are in market equilibrium. Locations with pronounced international connections are to be regarded differently from regional economic centers.

Vacancy development



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Vacant space

	Vacant space 2003 in m ²	Vacancy rate 2003 in %	Vacancy 2003 as multiple of avg. of 10-year space turnover
Berlin	1,600,000	9.2	3.95
Dresden	290,000	12.6	3.71
Düsseldorf	800,000	13.5	3.23
Frankfurt	1,500,000	13.2	2.80
Hamburg	1,050,000	8.3	3.31
Cologne	410,000	6.3	3.43
Leipzig	778,000	23.1	8.37
Munich	1,560,000	9.1	2.77
Stuttgart	375,000	5.4	2.36

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The level of office rents fell in 2003 in almost all markets. In particular, locations with a high proportion of speculative buildings in the volume of completions and with traditionally higher market volatility, showed an above-average decline in rent levels. Only in those locations that already had a very low level was it possible to hold nominal rents constant with the help of incentives like rent-free periods –

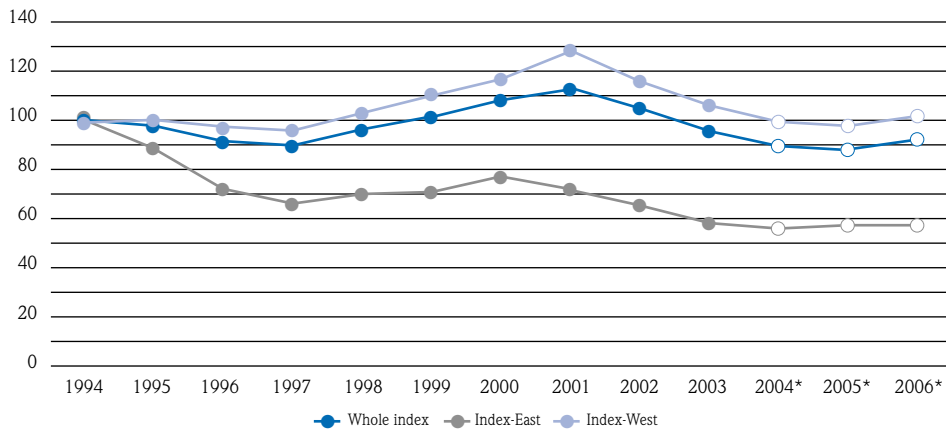
with the result that the actual rents fell. Despite the correction that has occurred so far, current market rents in the west-German office markets are almost everywhere still above their levels of 1996/1997. Especially in Cologne, the rent level is still relatively high, thanks to the positive structural development of the location in the last few years.

Top office rents

	Top rents 2003 in EUR per m ²	Change 2003/2002 in %	Rent level 2003 in % of last lowest level
Berlin	22.0	-12.0	89.4
Dresden	10.0	-9.1	75.2
Düsseldorf	21.5	-2.3	116.8
Frankfurt	34.0	-19.0	110.7
Hamburg	20.0	-4.8	97.6
Cologne	19.5	-2.5	136.2
Leipzig	10.0	0.0	89.3
Munich	28.5	-9.5	111.3
Stuttgart	16.0	-2.1	104.3

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Indexed development of office rents



Index for the locations Berlin, Cologne, Dresden, Düsseldorf, Frankfurt, Hamburg, Leipzig, Munich, Stuttgart. Index-weighting for locations corresponding to mean 10-year space turnover

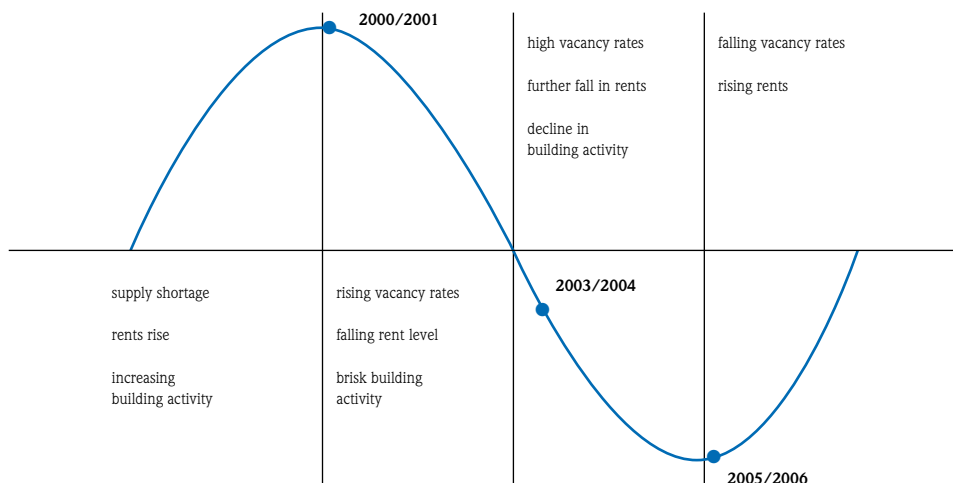
*Forecast

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For the year 2004, a further approximation of rents to their lows in the last market cycle is expected in west German locations. A higher net absorption rate is only likely when tenants demand more space for expansion purposes, as a result of better economic prospects, growing confidence in the upswing and rents that

continue to be favourable. Even then it is unlikely that the same space dimensions will be required as in the last cyclical upswing. Rents will react to these effects towards the end of 2005 at the earliest, and in some locations possibly even later. A fundamental recovery is not to be expected before 2006.

Idealized real estate cycle



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Office centers – investment market

The major German investment markets witnessed a declining investment volume in 2003. The reasons for this are low letting activity and rising vacancy rates in the domestic office markets, along with a switch in investment activity of institutional investors to foreign locations.

The volume of investment activities in the major office centers fell by around EUR 8 bn to EUR 5 bn. As the traditional center for office investment, Frankfurt still achieved the highest investment volume at around EUR 1.35 bn, ahead of Berlin and Munich, although in comparison with the year before this was very much lower.

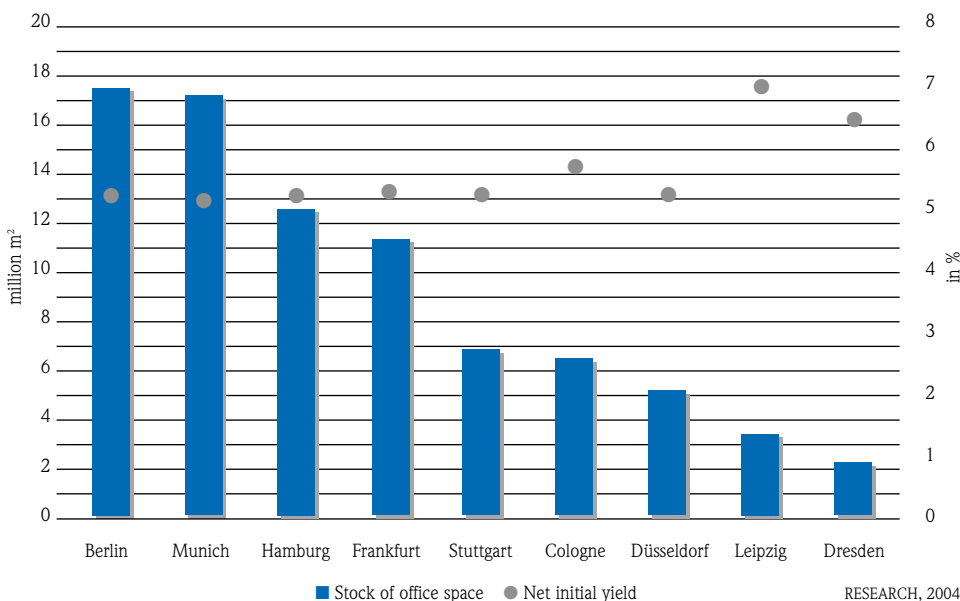
Initial yields for office properties in inner city sites persisted at a low level, with figures of between roughly 5 to 6.25 %. In principle, due to higher market risks, the expected

tendency would be towards a rise in initial yields, but the pressure on demand caused by the high mass of liquidity on the part of real estate investors, coupled with limited supply, held the price level steady. In comparison with other asset classes, yields attained on the property markets were sufficient to ensure further inflows of investors' money.

In interregional comparison, yield differences between the major markets continue to be small. More strongly marked are the difference in relation to attainable yields, depending on the site and the quality of property within macro-locations.

The largest investor group in the German real estate market continues to be open-end real estate funds, with a commercial transaction volume amounting to more than EUR 2 bn. Their investment explains the high proportion of big-ticket investments.

Space inventories and top yields



Opportunity funds achieved the strongest growth through the purchase of portfolios. Property development companies and project developers appeared in greater numbers, chiefly on the seller side, whereas their investment on the buyer side was much less, due to the market situation.

In the following analysis on the period considered from 1994 and 2006, total performance in yearly average is the centerpiece. The total return observed comprises the net cash flow yield and the change-in-value yield.

It is generally true of office property in top German office markets that they are characterized by a high purchase price level which fluctuates little in the course of time. The net cash flow yields are relatively stable in development; yield elasticity is low. For the volatility of the total return as the expression of the investment risk, the development of the change-of-value yield is the decisive figure. Also for the differences between the locations in respect of the amount of the total return, the change-of-value yield is the decisive figure. The reason is the highly uniform average level of initial yields in most of the locations researched (exceptions being only Cologne, Leipzig and Dresden).

The comparison of total return and risk for prime sites in the major office locations produces another picture. The locations researched can be divided roughly into the east German office centers, including Berlin, and the west German office locations. It is useful to subdivide the locations in the old federal states between national centers and internationally important office markets. In the east German office locations, rents rose immediately after the reunification due to the shortage of office

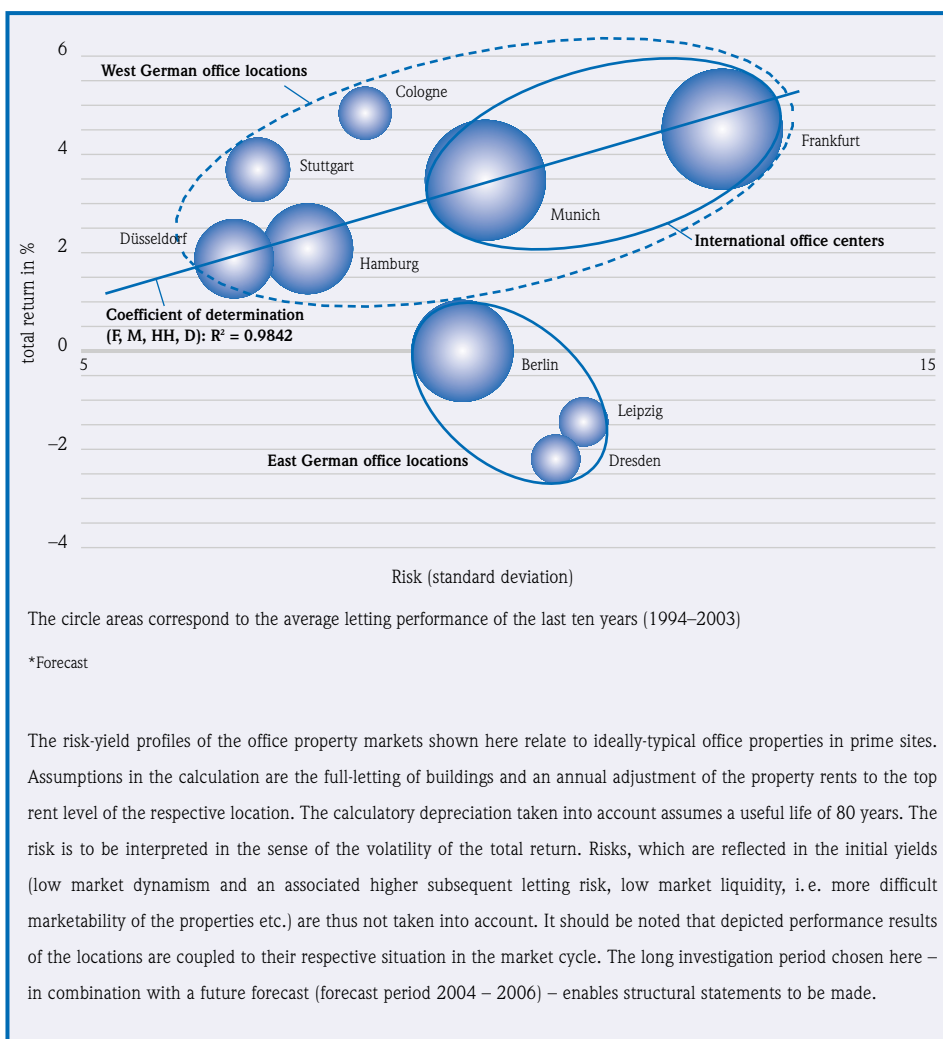
space. This led to a brisk building activity which in turn created a severe oversupply in office space which even today has still not been dissipated. The negative total return is to be explained in particular by the correction of the market exaggeration that accompanied the birth of new office markets. The comparatively high initial yields that were attainable in Leipzig and Dresden could by no means offset these change-in-value yields. Berlin likewise had to suffer under the “special development of the East”, but managed nevertheless to achieve the best performance, measured by total return and risk, of the three east German markets. In future, too, the Berlin yield-risk profile will further distance itself from the profiles of Leipzig and Dresden and approach the profile of west German locations.

In the west German office centers a positive relationship between risk and return is perceptible. The internationally important German office property markets of Frankfurt and Munich exhibit the highest risk in the sense of a high standard deviation of the total return; at the same time, the level of the yields in these markets is also at the top, in comparison with the whole of Germany. Frankfurt, especially, has a highly pronounced yield-risk profile. The office markets of Hamburg and Düsseldorf – important German office centers with correspondingly high turnover performance but which, internationally, are of less importance – display low risk but also a lower total return.

Stuttgart deviates from the very narrow risk-return relationship of the four major centers (Frankfurt, Munich, Hamburg and Düsseldorf) and also shows a total return, with a lower volatility, that is comparable with the total return of Munich. The average turnover performance of Stuttgart, the capital of Baden-



Average performance of office property markets 1994 – 2006*



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Württemberg, is well under that of the four major west German markets; the location confirms its reputation as a stable office center, regional in character. Cologne's risk-return relationship deviates even more strongly from that of the other west-German office locations, although Cologne is distinctly more regional

in character than Hamburg or Düsseldorf. The level of initial yields in Cologne is about half a percentage point higher than in the comparable locations – a structural peculiarity which is usual for regional centers, though Cologne in particular has gained in importance as an office market in the last few years.

Regional real estate markets

As in the economy, generally, globalization tendencies are visible in the real property sector. Investors are increasingly active on a worldwide basis. In this, the large metropolises and economic centers of the respective countries are in the focus of interest. Generally speaking, globalization and internationalization enhance the importance of cities that constitute major nexuses in the world economy.

Economic areas that do not have a significant role in such intense interlinkage suffer a loss of importance. With the increase in the importance of globally interconnected markets, also demand within Germany is seen to concentrate on investment properties in the “big five” – Berlin, Hamburg, Düsseldorf, Frankfurt and Munich.

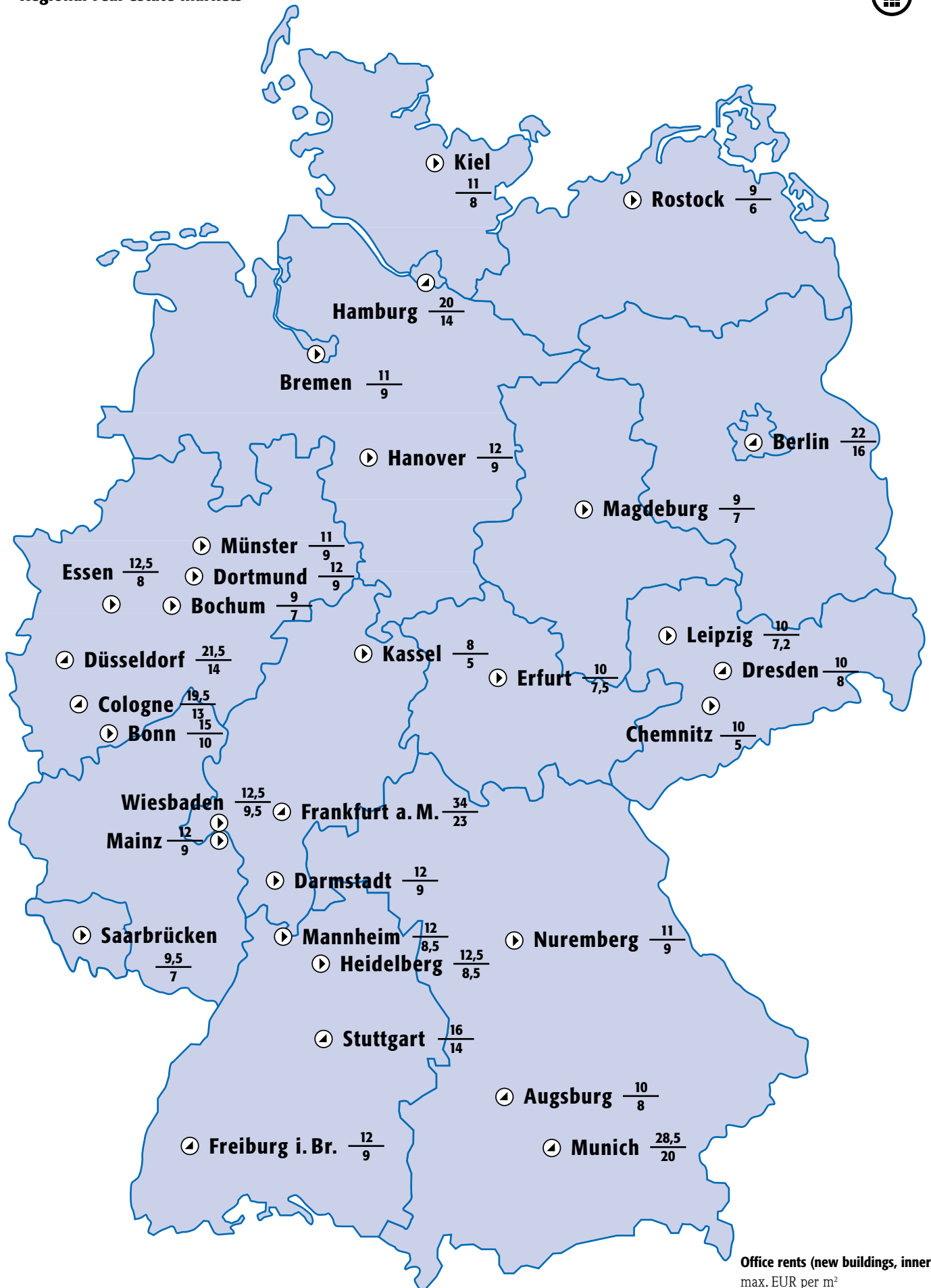
All the same, real estate markets outside of the major German centers should not completely disappear from focus, and in total, they represent an important component of the whole German market. In a strategic approach for a balanced portfolio structure, they offer potential to investors for diversification within Germany.

For the following analysis of the regional property markets a selection* of large German cities was made. The essential prerequisite for a flourishing real estate market is a highly developed services sector, for this generates a corresponding demand for office space. Besides space criteria and the intraregional importance of the respective market, above all the variable transparency of the local real estate market is incorporated in the selection process.

The analysis specific to the real estate market is preceded by an overview of the socio-economic data. Just the comparison of these data indicates clearly the differences between individual locations. One cannot generalize about “regional locations” as if they were a single entity.

* The following cities were taken into account:
Augsburg, Bochum, Bonn, Bremen, Chemnitz, Darmstadt, Dortmund, Erfurt, Essen, Freiburg i. Br., Hanover, Heidelberg, Kassel, Kiel, Magdeburg, Mainz, Mannheim, Münster, Nuremberg, Rostock, Saarbrücken, Wiesbaden

Regional real estate markets



Office rents (new buildings, inner city)

max. EUR per m²

min. EUR per m²

▶ Forecast (6 mths.)

Survey of basic socio-economic data of the regional locations

	Population (12/02)	Unemployment rate (12/03)	Socially insured persons employed in tertiary sector	Purchasing power index per inhabitant in 2003
Augsburg	259,231	7.8	64.8	104.9
Bochum	388,869	13	65.4	103.4
Bonn	308,921	7.3	83.7	118.5
Bremen	542,987	11.1	68.8	100
Chemnitz	252,618	16.6	74	83.9
Darmstadt	138,959	7.3	71.2	117.0
Dortmund	590,831	14.4	74.2	98.5
Erfurt	199,967	18.1	77.8	83.5
Essen	585,481	11.5	74.7	106.1
Freiburg i. Br.	210,234	6.2	79.3	96.8
Hanover	515,001	11.3	76.7	109.2
Heidelberg	142,575	6.4	78.4	105.3
Kassel	194,146	10.2	75.5	98.9
Kiel	233,270	11.1	78.7	96.2
Magdeburg	228,170	18	81.7	82.4
Mainz	186,103	7.1	78.9	117.4
Mannheim	308,759	8.8	65	100.5
Münster	268,945	8.1	80.2	112.9
Nuremberg	493,397	9	70.2	107.8
Rostock	198,259	19.4	81.2	82.9
Saarbrücken	349,102	10.9	76.1	95.3
Wiesbaden	271,553	7.8	79.9	118.1

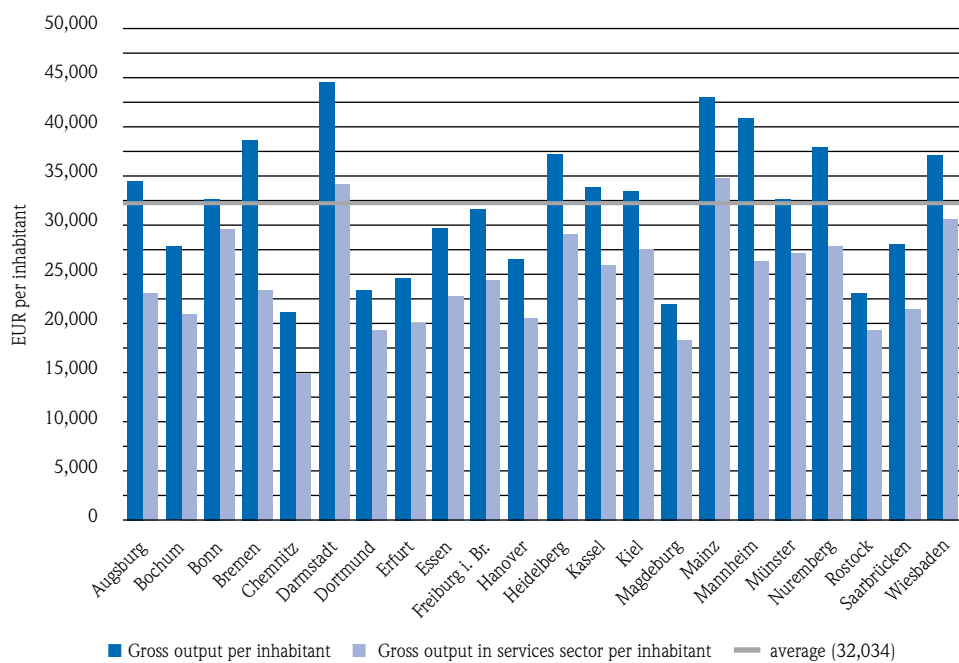
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If one examines the economic strength of the individual cities, measured by gross output per inhabitant, great differences emerge. The east-German cities rank at the lower end. What is noteworthy is the good position of the Rhine-Main and Rhine-Neckar locations which profit from the prosperity of the large urban areas (conurbations).

Also in relation to the change in the number of office employees, a major factor in office-space demand, there are marked differences. The west-German regional cities registered increases, but compared with office centers like Frankfurt or Munich at a lower level. In contrast, the number of office employees in the east-German cities declined.

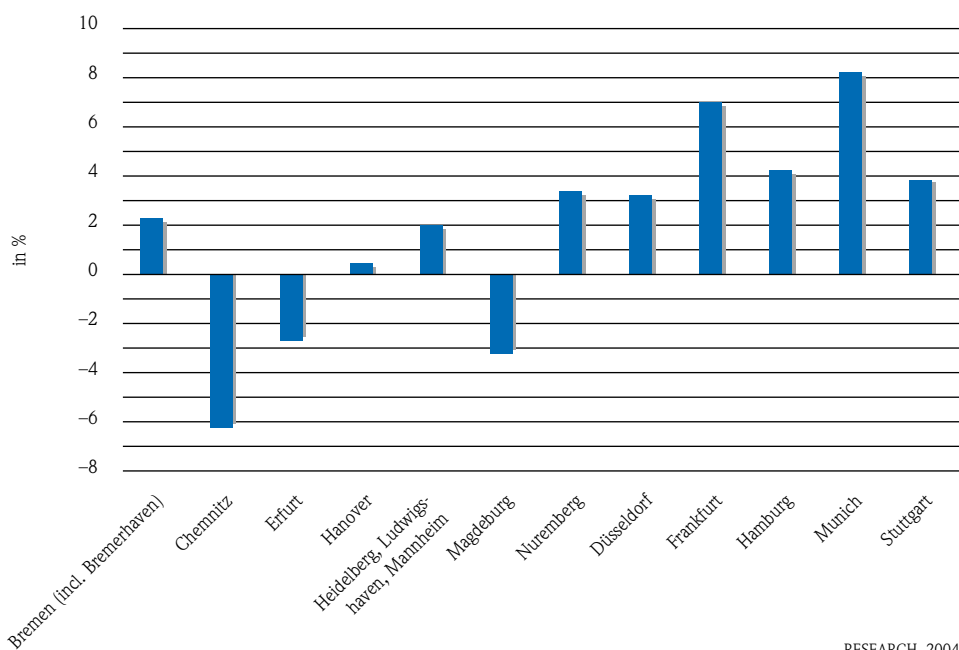


Gross output of the regional locations (2001)



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Change in no. of office employees 1999–2001 in selected locations



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Key figures of office markets in regional locations

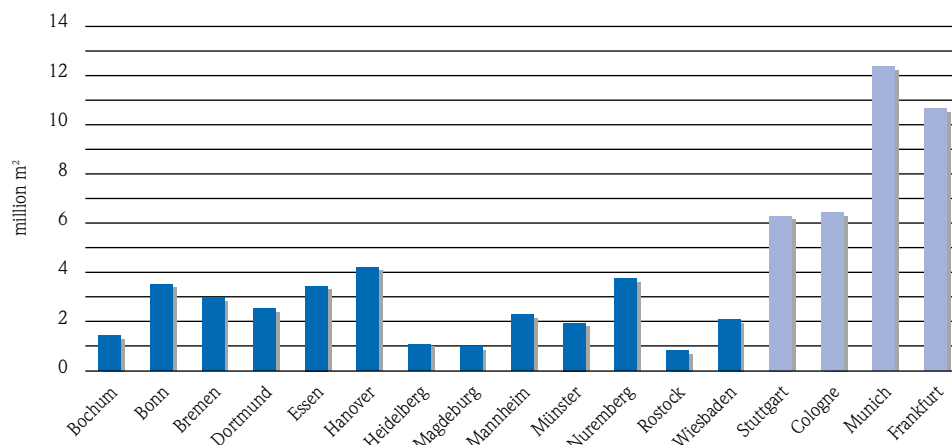
In comparison with the major German office-market centers, the regional locations are characterized by markedly lower stocks of office space and generally small-unit structure of the office properties. Total office space ranges from just under 1 million m² to around 4 million m². Furthermore, the share of owner-users in these locations is relatively high and regional players determine what happens on the market. Their locational decisions are usually long-term in effect, as proved by the above-average length of rental commitments. Project developments are, in keeping with the smaller market size, smaller in scale and the proportion of speculative building is very low.

Demand for the most part is generated in the local or regional area. A diversified user-structure in the location favours the stability of the office market. In 2003, turnover in space in the regional centers was between 25,000 and 80,000 m².

A direct comparison of real estate market figures in the regional locations is, however, made more difficult by the lack of market transparency. Data on the real estate market are seldom and, even then, often only captured in part. Very few cities have detailed market reports, their compilation originating mostly from local initiatives to promote economic development.

Rent-price development in the regional locations – starting from a low level – display a low (absolute) fluctuation range. With regard to the rent-price level, the Bonn market – with top rents of currently EUR 15 per m² – occupies a special position. Most of the regional centers chalk up top rents of between EUR 9 and 12 per m². If one looks at rent development over the last five years, quite countermoving tendencies can be observed in the cities investigated. Marked price increases were attained in the cities of the Rhine-Main and Rhine-Neckar areas. The other locations, corresponding to the overall trend in Germany, posted rent-price declines.

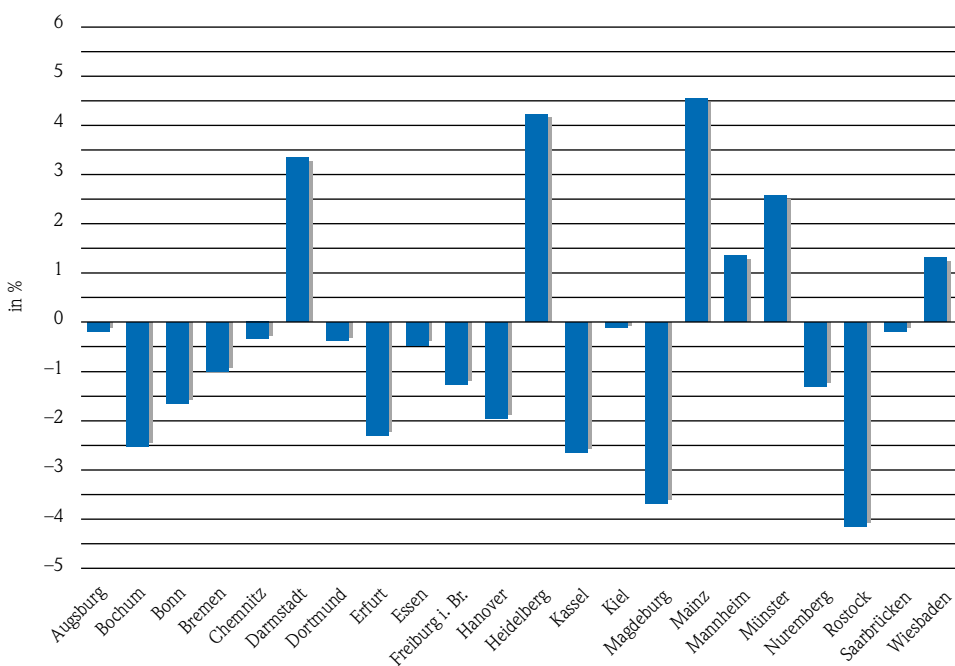
Office space stock in comparison



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Average rent development of locations 1999–2004



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Cities in economically strong conurbations developed more positively than isolated locations.

Regional locations tend to offer higher yields than the major German investment centers. Depending on the site and location, yields of 5.5 to 8.5% can be achieved. The higher returns also reflect the higher risk of an investment; this can, for example, be explained by the greater difficulty in subsequent letting.

As a result of the regional markets' high degree of stability, which is appraised as a positive factor, purchase prices are also stable. Hence the potential for increases in value of a real estate investment are to be rated as relatively low.

Structural features of regional locations in overview

Characteristic	Value/description
Office space stock	approx. 1 million – 4 million m ²
User structure	high proportion of owner-users, nationally and regionally operating enterprises
Building activity	conforming to market, hardly any speculative project development
Space turnover	25,000–80,000 m ² (2003)
Rent level	EUR 9–15 per m ²
Yield level	5.5–8.5 % (office and retail buildings)

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Typification

The real estate market as “space provider” for business and administrative functions is of course highly interconnected with economic development. For this reason, regional property markets have in the first instance developed in large, densely-populated urban centers which – owing to the high concentration of enterprises and labour-force potential – feature a high degree of economic activity. As a consequence of the federal/polycentral structure and the division of Germany into two states after the Second World War, German conurbations developed differing focal points with regard to economic and state functions. This process gained further and faster in importance – even after the reunification: The shaping of independent economic profiles with one main economic/administrative function, or with a few dominant functions, per economic area, will intensify swiftly. Thus for regional economic areas, the demand for a position between the provision of services for an economic region, offering a wide range of services, and a function as “extended workbench” with the performance of specialized

services for a center, will become increasingly pressing. The following examples show that a highly developed tertiary (services) sector and a high proportion of enterprise-related services have a positive influence on the development of the real estate markets.

Even if the regional real estate markets cannot be viewed as one entity, they can nevertheless be grouped according to various factors. Decisive in this, can, for example, be factors of space or economic emphasis. Thus, the cities of Bonn, Münster and Wiesbaden are characterized by the traditionally high importance of their administrative functions, which is also expressed in the high proportion of their services sector in terms of number of employees and the value of gross output. Bonn, as the former capital of the republic, again holds a special place thereunder. With about 84 % of all the city’s employees working in the services sector, Bonn has a very high tertiary level, which is also proved by the 90 % contribution of the services service to gross output. Below-average unemployment figures and above-average purchasing power are further features of an attractive economic



location. Even after the relocation of the federal government and the Bundestag (lower house of parliament) to Berlin, a large proportion of space will still be used by federal institutions. Only about 3 % of the total stock of Bonn's office space was given up by the federal government. And this largely consisted of space that did not meet modern standards, so that the effects of the relocation on the Bonn office market constitute only a limited burden. In the federal government quarter of the city, the authorities are among the most important office-users. Moreover, the location is used by UN organizations and the group headquarters of Deutsche Post (German post) and Deutsche Telekom.

The Ruhr area, with a total of almost 15 million m² of office space, is the second-largest real estate location in Germany, which subdivides into market segments – cities – of varying individual importance. Essen, the traditional location of a number of industrial/commercial groups, has developed into an office, trading and administrative center, following a radical structural change. Besides its role as head office of twelve of Germany's strongest sales enterprises, among them RWE AG, KarstadtQuelle AG, Thyssen-Krupp, RAG, Hochtief AG and Aldi Nord, the city is stamped by its *Mittelstand* (small and medium-sized enterprises) structure, which comprises branches of the services sector. Besides the administrations, demand in the office market comes from industrial companies, firms in the sectors of health, insurance and IT technology, as well as the suppliers of other services. Dortmund in the past set the course for the further economic development of the location by the setting up of centers of competence in growth industries. In contrast to the development in other cities, the share of demand for

office space from the IT sector is still comparatively high here. In general, the office market of the Ruhr is quite stable. With vacancy rates of about 5 % (Essen, Dortmund), the region suffered a lower fall in demand than the large office centers. Rents remained stable.

The real estate markets of east Germany did not come into existence until after German reunification, thus they have a very short past. The enormous structural transformation induced by radical and far-reaching political and economic changes, accompanied by severe unemployment, considerable emigration to west Germany and by low purchasing power, is still under way. For the real estate markets, the number of people employed in offices is a key figure. Its negative development makes the east German markets the "problem children" among the regional locations. In the course of the investment boom following German reunification, a great supply of office space was generated which could not be absorbed by the market. Thus the vacancy rate at 17 % in Magdeburg, for example, is very high, whereas the west German regional locations are marked by relatively stable vacancy rates of below 5 %. With a stock of office space just under 1 million m² in the case of Magdeburg and Rostock very small markets are concerned. Rents tend to be at the lower end of the range.

Potential for diversification of regional locations

The planned utilization of cyclical rental developments in investment and disinvestment decisions is an important aspect of risk diversification at portfolio level. By correlating the 10-year development of top rents, information can be gained on both the similarities and differences in the real estate market cycles of German office markets, thereby indicating the potential for diversification. The diversification potential expressed in this quantitative way relates to the non-synchronous (“time-lags”) of the real estate cycles and thus constitutes at market level only part of the diversification possibilities that are strategically relevant for a portfolio. For the analysis, the regional locations chosen as examples were grouped as west-German and east-German locations and compared with the most important office centers.

Within the group of west-German regional locations no pattern is discernible – there are neither positive nor negative correlations. The development of the office markets is more strongly dependent on regional and local factors than on overall national influences, so that no “synchronicity” of market developments is observable in the individual locations. The non-uniform development of the regional real estate markets is also demonstrated in the varied rent development. Basically, there is incipient diversification potential within the selected west-German cities, due to their relatively independent cyclical development. The rent development of east-German regional locations is highly correlated. As already explained in the context of qualitatively typifying the regional locations, the reason lies in their common structural development after the reunification of Germany. The weak economic

output of the new federal states (ex-GDR) has also a negative impact on the local office markets, which is reflected in strong declines in rent in the course of the last ten years.

In general, the regional locations do not keep in step with the cyclical development of the major centers. Due to the relative dissimilarity noted in their development, one can state that there is definite diversification potential within Germany, thanks to the differences in the market cycles. In particular, the regional locations, as office markets largely determined by local events, contribute to this. The absence of patterns with regard to clearly positive correlations – with the exception of the east-German regional locations – open up possibilities for diversification. Nevertheless, the picture available for planned diversification is made more complicated than it would be, if there were clearly recognizable clusters moving in the opposite direction.

Correlation coefficient

The correlation coefficient is the most common measure of the degree of connection between variables under investigation. The correlation coefficient is independent of the level of the values of the individual variables and is an absolute index for the linear connection between the corresponding values of two variables. The correlation coefficient lies between -1 and $+1$. It is positive when the high (or low) values of one of the variables corresponds to the respectively high (or low) values of the others; in the opposite case, it is negative. The value is all the nearer to $+1$, the closer the relationship is. If there is absolutely no relationship between the variables the correlation coefficient is 0 .

Correlation coefficients matrix

	Bremen	Münster	Hanover	Essen	Wiesbaden	Mannheim	Nuremberg	Erfurt	Magdeburg	Rostock	Berlin	Düsseldorf	Hamburg	Frankfurt	Munich
Bremen	1.00														
Münster	0.13	1.00													
Hanover	0.45	0.01	1.00												
Essen	0.34	0.35	-0.16	1.00											
Wiesbaden	0.56	-0.09	0.88	-0.23	1.00										
Mannheim	-0.50	0.68	-0.11	0.27	-0.31	1.00									
Nuremberg	-0.11	0.48	0.50	0.18	0.42	0.68	1.00								
Erfurt	0.21	0.04	0.93	-0.20	0.82	0.08	0.64	1.00							
Magdeburg	0.35	-0.17	0.95	-0.09	0.77	-0.16	0.44	0.87	1.00						
Rostock	0.33	-0.18	0.92	-0.23	0.91	-0.20	0.49	0.94	0.90	1.00					
Berlin	0.41	0.15	0.66	0.00	0.63	-0.02	0.48	0.48	0.64	0.48	1.00				
Düsseldorf	-0.07	0.16	0.69	0.06	0.53	0.48	0.87	0.78	0.71	0.65	0.61	1.00			
Hamburg	0.17	0.47	-0.15	0.25	-0.06	0.31	0.24	-0.24	-0.20	-0.28	0.43	0.14	1.00		
Frankfurt	-0.23	0.51	-0.57	0.40	-0.56	0.54	0.13	-0.53	-0.55	-0.65	0.01	-0.04	0.81	1.00	
Munich	-0.48	0.62	-0.66	0.30	-0.68	0.74	0.21	-0.52	-0.69	-0.71	-0.24	-0.09	0.56	0.89	1.00

Top-rent development 1994-2003

RESEARCH, 2004



Regional locations in the focus of open-end real estate investment funds

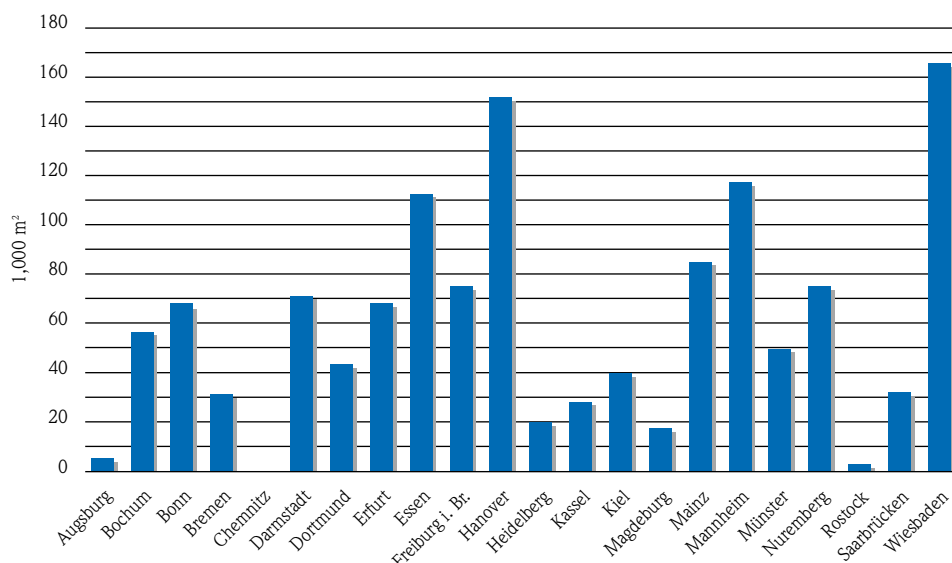
The German open-end real estate funds currently hold a total of more than 2 million m² of office space in German cities outside of the major office centers. Wiesbaden and Hanover are of particular interest in this. The funds' investment companies also continue to invest in regional centers. The latest examples of this are purchases in Hanover and Saarbrücken.

Despite the postponement of investments outside the European Economic Area – made possible since the 4th Financial Market Promotion Act came into force, enabling almost unlimited investments outside that area – investment focus has been increasingly on foreign locations. Under the pressure of high inflows of investors' money, big-ticket investments are chiefly sought and these are most

easily realized in large, liquid markets, Regional centers, in contrast, have less liquidity and the individual project volumes are small. All the same, single smaller investments are effected as part of the portfolio "mix".

For retail property, on the other hand, other rules apply. Regional shopping centers are also of great interest for the investor group of open-end real estate funds. Recently, for example, the Allee-Center in Remscheid, Essen's City-Center and the Volme-Galerie in Hagen were bought by such funds. Worthwhile investments in the retail property segment can, in principle, be realized in every large city; in this, the decisive role is played by the right choice of microlocation. In view of the increasing polarization between prime sites and secondary ones, a prime site in the center of an inner city is of the highest importance.

Office-space stock in 2003 of German open-end real estate funds in regional locations



RESEARCH, 2004



On the one hand, hardly any vacant space is registered in prime sites, and on the other, the limited scope for expansion of 1a (prime) sites, in itself ensures stability. In project planning of entire city quarters, the importance of attractive retail sites is given increasing attention.

Outlook

The real estate markets of regional locations are distinguished by low volatility and the chance of attaining high yields. Less speculative building activity and above-average length of rental agreements are limiting factors with regard to market dynamism. This has to be seen in the light of possible subsequent letting risks and also the risks arising from the low liquidity of the regional markets.

Nevertheless, one can infer from the characteristics discussed here, that regional real estate markets can offer altogether interesting investment possibilities. In particular, looked at from the aspect of a long-term investment in stable markets, advantages in yield can be realized.

A growing market dynamism in regional locations is to be expected in future, through the foreseeable capitalization of real estate property of major German firms, such as Deutsche Telekom, Deutsche Bahn (railways), Deutsche Post (post), Thyssen-Krupp, RWE and Siemens. Planned sales or sale-and-leaseback transactions will generate fresh impetus for the markets concerned.



ASSET-CLASS – REAL ESTATE

Real estate investment products compared

Real estate investment products compared

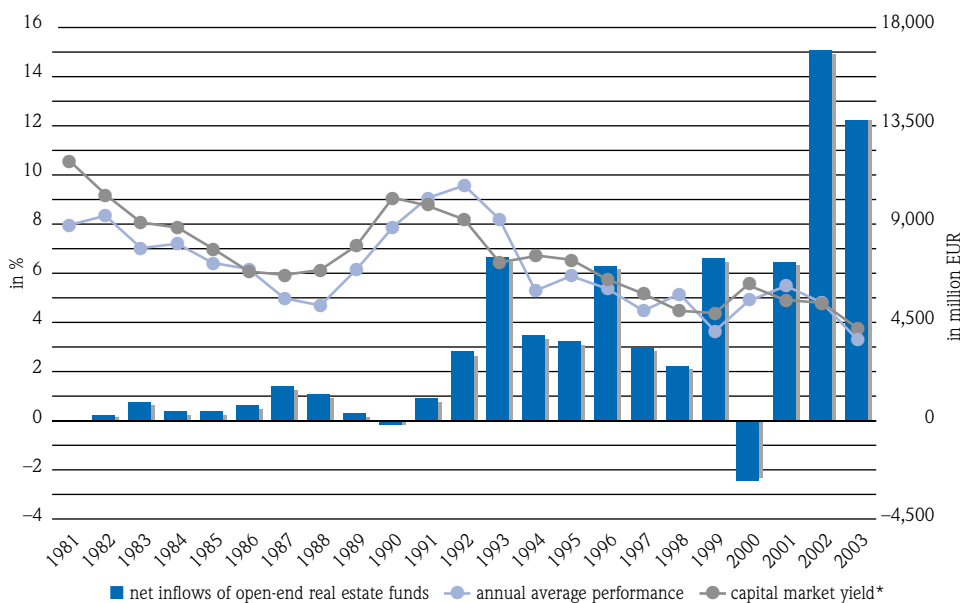
Having chalked up a record year in 2002, the open-end real estate funds also achieved a high net inflow of EUR 13.7 bn last year. The assets of the real estate fund companies recorded by the Bundesverband Investment und Asset Management e.V., had risen to around EUR 85 bn as of 31.12.2003.

Due to the cyclical weakening of the real estate markets, open-end real estate funds are at present generating lower yields than in past years. Furthermore, as interest rates on liquid assets are lower than the yields of property investments, this is having a dampening effect on total yield, due to the high inflows of investment money. The average performance of open-end real estate funds in 2003 amounted to 3.3%, compared with 4.7% in 2002.

The average increase in value in the period of ten years was 58.7%, in the period of 20 years it was 208.9%.

In the recent past, increasing differences have appeared between the individual open-end real estate funds with regard to their size, regional focus and types of property. The trend to product differentiation in accordance with varying yield-risk profiles is being accelerated by the broader investment possibilities opened up by the 4th Financial Markets Development Act. As a result, the number of funds that are set up to invest globally is increasing. A widening divergence in the performances of open-end real estate funds is occurring. The range of one-year performance as of 31.12.2003 was from 0.4 to 7.3%. The funds that have been established in the market for many years are mostly characterized by their large property

Development of open-end real estate investment funds

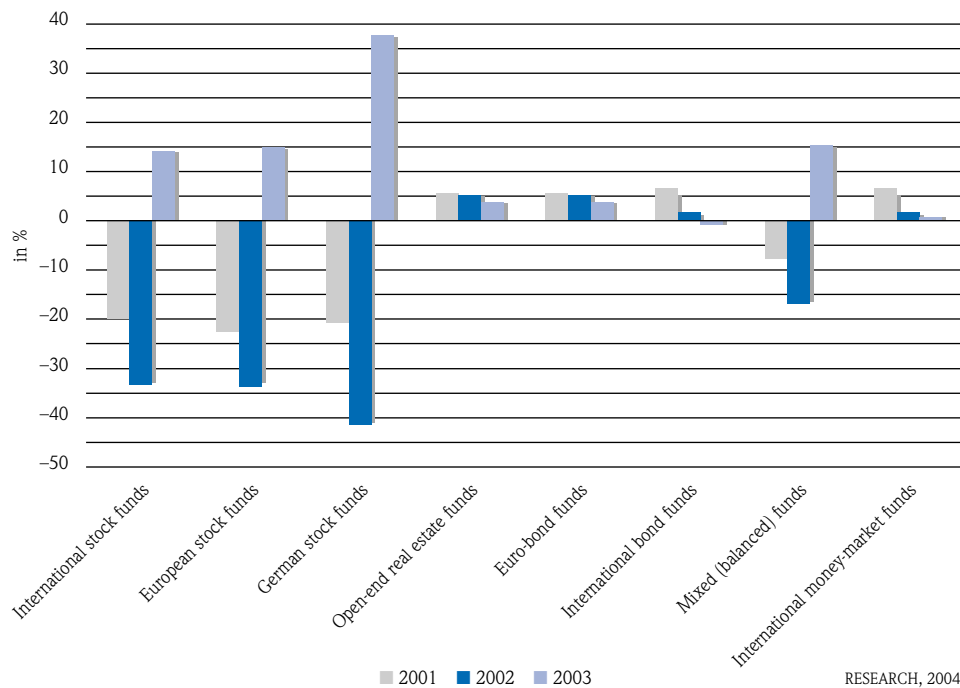


*Capital market yield = current yield on bonds of domestic issuers

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Percentage development of performance of fund investments 2001–2003



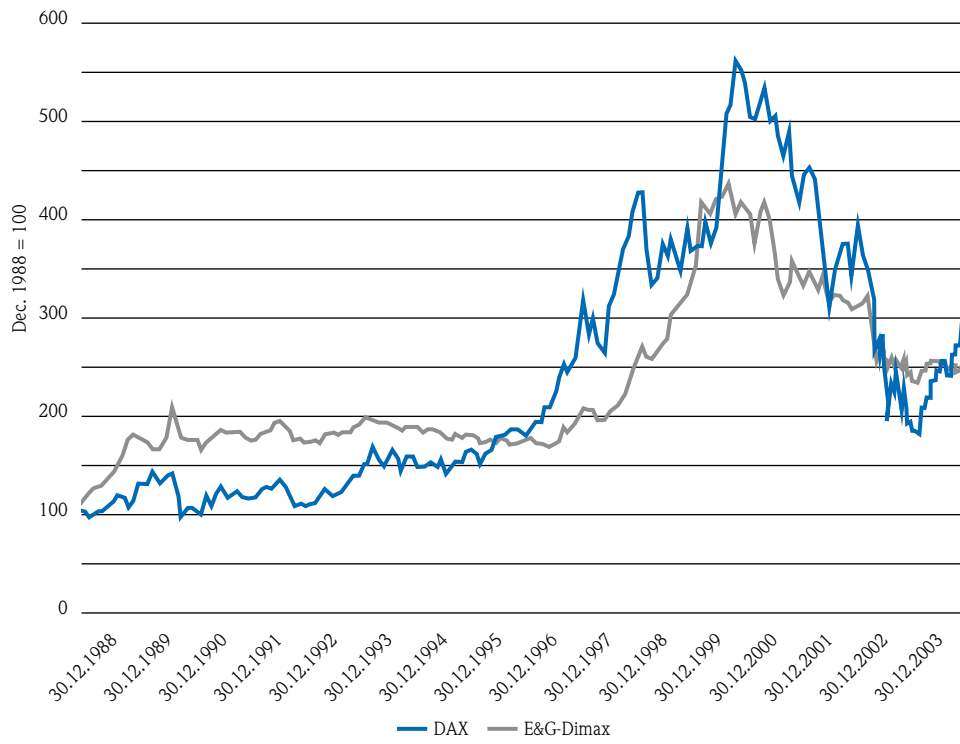
portfolios and their strategic emphasis on the German real estate market. Recently, the new internationally oriented funds have achieved an above-average performance, which has, however, to be seen also in the light of higher risks.

The number and volume of real estate special funds climbed rapidly again in 2003. Due to the higher demand of institutional investors, net inflows of investment money to this kind of indirect real estate investment amounted to EUR 1.2 bn in 2003, raising the total volume of fund assets to EUR 12.3 bn. Closed-end real estate funds reached a placed capital of EUR 4.76 bn. Unlike the year before, investor interest in Germany funds was greater than in investments in the USA.

Despite the decline in performance, open-end real estate funds in 2003 maintained their reputation as a solid investment for long-term oriented investors, in comparison with other forms of investment. Admittedly, the German share index DAX closed 2003 with a plus of 37.1%, compared with year-end 2002. The mid-term results of stock funds with German or international focus are, however, heavily burdened, due to the stockmarket's plunge in prior years. The volatility of the German equity markets has greatly increased since the mid-'90s. In contrast to the DAX, the real estate share index DIMAX, following the sharp prices falls of recent years, also failed to make a significant recovery in 2003.

Real estate investment products compared

Development of the DIMAX and DAX



RESEARCH, 2004

Investment behaviour of open-end real estate funds

The weakening environment of the letting markets makes the investment of fund inflows in suitable properties more difficult. The trend towards internationalization is continuing. In 2003, the open-end real estate funds acquired 100 properties in foreign countries, with a total space volume of about 2.2 million m². The transaction volume was concentrated on the European economic centers, notably Paris, London and Milan. Typical for this investment activity was a high proportion of big-ticket transactions.

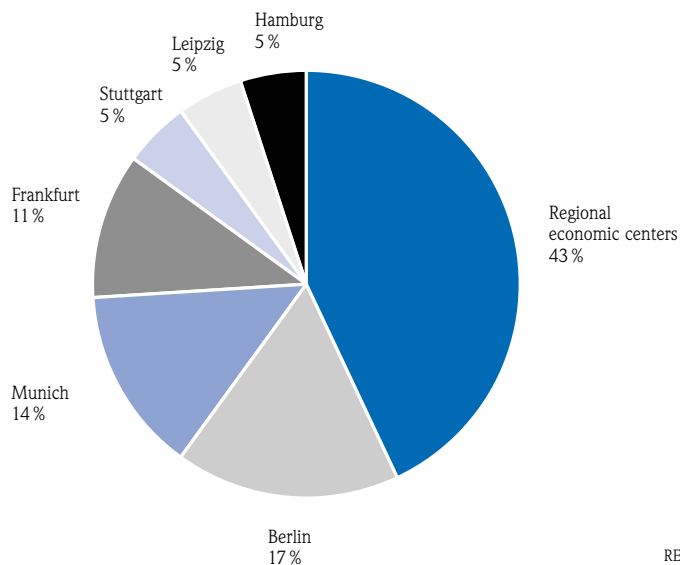
The effort to invest outside of Europe, especially in North America and the Asian-Pacific region, is perceptibly increasing. Even if the number of actually implemented transactions is still small, nevertheless the investment companies (KAGs) are already preparing for such operations.

So far, in addition to properties in the United States, isolated real estate purchases have been made in Australia and Japan. In choosing properties in non-European markets, increasing reliance is placed on cooperation with local partners, because of the great importance of local know-how.



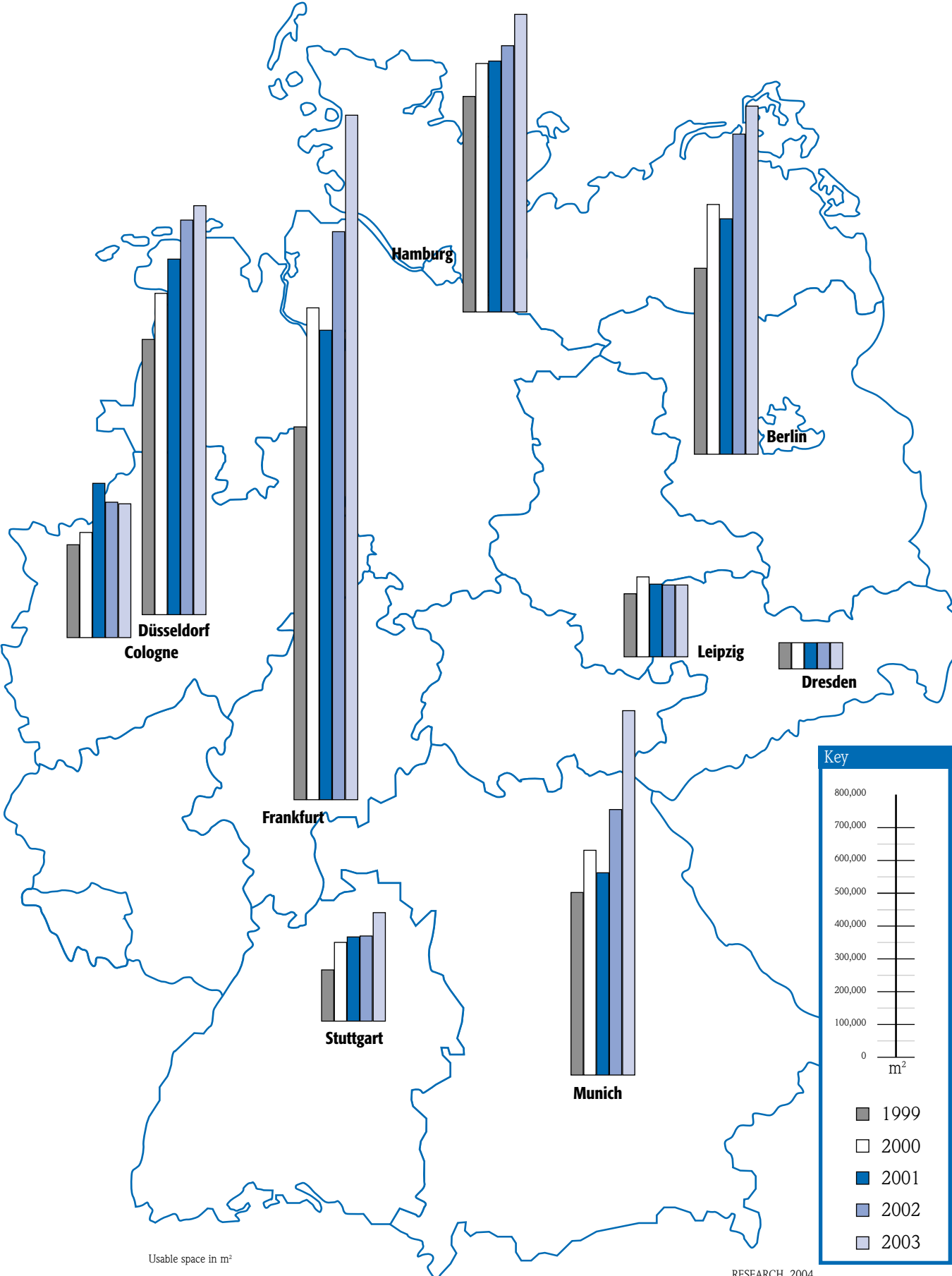
Despite the trend to internationalization, Germany remains the regional focus of the portfolios of the major open-end real estate funds. In 2003, these funds were once again the most important investor group in the domestic market. Besides properties in the classical centers Frankfurt, Munich and Berlin, regional cities with a stable economic base were increasingly scrutinized. In this, particular focus of investors was on shopping centers, hotels and mixed-use retail buildings with long rental or leasing agreements. For the year 2004, a further differentiation in niche markets is to be expected.

Purchases by open-end real estate funds in Germany in 2003



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Property inventories of open-end real estate funds in German investment centers



Usable space in m²

RESEARCH, 2004



Real Estate Centers

Berlin

The Market for Office Property

In the year 2003, economic developments in Berlin were characterized by persistent slackness in business and profound structural change. Against the backdrop of weak economic data and the continuing rise of the unemployment rate, the propensity of the corporate sector to lease additional space was restrained, despite the low level of rents. The letting volume in the office market amounted to 340,000 m². In addition, there was a volume of 30,000 m² of owner-occupied space. Total annual turnover of space thus added up to 370,000 m², i. e. 14 % less than in the year before. With this turnover, Berlin ranks third in the national comparison, after Frankfurt and Munich. The letting volume remained constant on the year before, the volume of owner-occupied space had however been significantly higher in 2002, amounting to 90,000 m². In the 10-year comparison, total turnover in 2003 attained about 91 % of the average value. The relative turnover volume, i. e. turnover as a ratio of the stock of

office space of 17.5 million m², amounted to about 2.1 %. Assuming an economic recovery, demand is expected to stabilize in 2004.

The majority of transactions seen last year were shifts within the Berlin office market. Companies moving to Berlin as well as companies relocating to larger office space remained the exception. Consolidation strategies often are a reason for relocation, in order to reduce cost pressure on the companies. The Berlin profile is defined by the letting of favourably priced office space, together with a reduction of the space occupied. As a consequence, the absorption of space in 2003 was a negative figure. Demand generated by the function of Berlin as the German capital primarily contributed to the stabilization of the turnover volume. In addition to company-related service providers, associations and public authorities were major pillars of demand for office space last year. Moreover, the group of IT and telecommunications enterprises was an important factor.



Key socio-economic data of Berlin

Indicator	Unit	Value
Inhabitants (2002)	in absolute figures	3,392,425
Change of the number of inhabitants (1997–2002)	in %	-1.92
Employees subject to social insurance contributions (2002)	in absolute figures	1,103,800
of which: in the services sector	in absolute figures	884,500
	in %	80.1
Unemployment rate* (December 2003)	in %	17.4
Unemployment rate* (December 2002)	in %	17.5
Purchasing power ratio (2003)	per inhabitant	99.4
Turnover ratio (2003)	per inhabitant	103.2
Retail trade centrality (2003)		1.04

*Local Labour Office District

RESEARCH, 2004

Selected Office Leases in Berlin in 2003

Property	Location	Floor Area in m ² (approx.)	Lessee
BIC	Kreuzberg	32,000	BfA
Dienstleistungszentrum Ostkreuz	Lichtenberg	7,900	AOK
Viktoriahof	Center	6,900	Landesamt zur Regelung offener Vermögensfragen (LARoV)
Office building	Charlottenburg	5,200	Berliner Wasserbetriebe
Spreetower	Charlottenburg	5,000	Landeszentralbank
Office building	Center	3,800	Deutscher Verein
Haus am Französischen Dom	Center	3,500	IKB Deutsche Industriebank

RESEARCH, 2004

Favoured by the large supply of state-of-the-art space in all location categories, demand for locations is spread over the entire city area. Peripheral locations accounted for the highest share in turnover, followed by the sub-segment Berlin-Center. Restraint with regard to the letting of large space is characteristic of the present market situation; lettings in the year 2003 were mainly concluded for smaller space (of less than 500 m²). High-quality space in new buildings was primarily in demand.

Last year, about 250,000 m² of office space was completed; this is a decline of 7% on the year before. Relative construction activity, as a ratio of the stock of space, was 1.4%. Due to the fact that a large number of properties are under construction, additional office space of about 350,000 m² will come to the market this year; a significant reduction of the construction volume is to be expected only for the time after 2005. Newly constructed space is concentrated in the central locations of Berlin-

Center and City-West. Large new buildings that will be completed in 2004 are e.g. the Stettiner Carrée and Quartier am Salzufer. In addition to those projects where construction has already started, a number of other big-ticket projects, such as the development area Zoobogen or the residential, retail and entertainment quarter on Alexanderplatz, are in the planning stage.

Selected current Office Projects in Berlin

Project	Location	Floor Area in m ² (approx.)	Scheduled Completion
Stettiner Carrée	Center	61,000	2004
Spreeport, 1 st phase of construction	Kreuzberg	38,000	2004
Axel-Springer-Haus	Kreuzberg	33,500	2004
Quartier am Salzufer	Charlottenburg	30,000	2004
Dom Aquarée	Center	19,500	2004
KPM-Areal BF3	Charlottenburg	17,000	2004
Spreekarree	Center	13,500	2004
Beisheim Center	Potsdamer Platz	10,300	2004
Köbis-Dreieck – German Head Office of KPMG	Tiergarten	16,900	2005
Office Center Hohenzollernpark	Wilmersdorf	13,600	2005

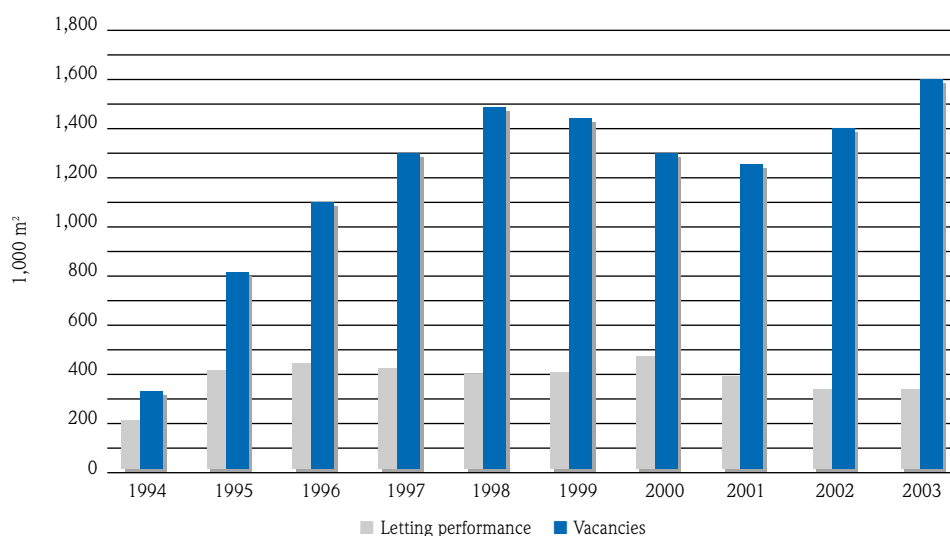
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The vacancy level in the Berlin office market has increased further due to both the completion of buildings that have not yet been let and the declining absorption of space. Until the end of 2003, the supply backlog including subleases increased to about 1.6 million m². This affects

all categories of locations, increasingly however also state-of-the-art buildings in the sub-segment Berlin-Center. In view of the large stock of office space in the city, the vacancy rate of 9.2% seems relatively small when compared with other office markets.

Development of Office Space Turnover and Vacancies in Berlin



Turnover figures excl. owner-occupiers

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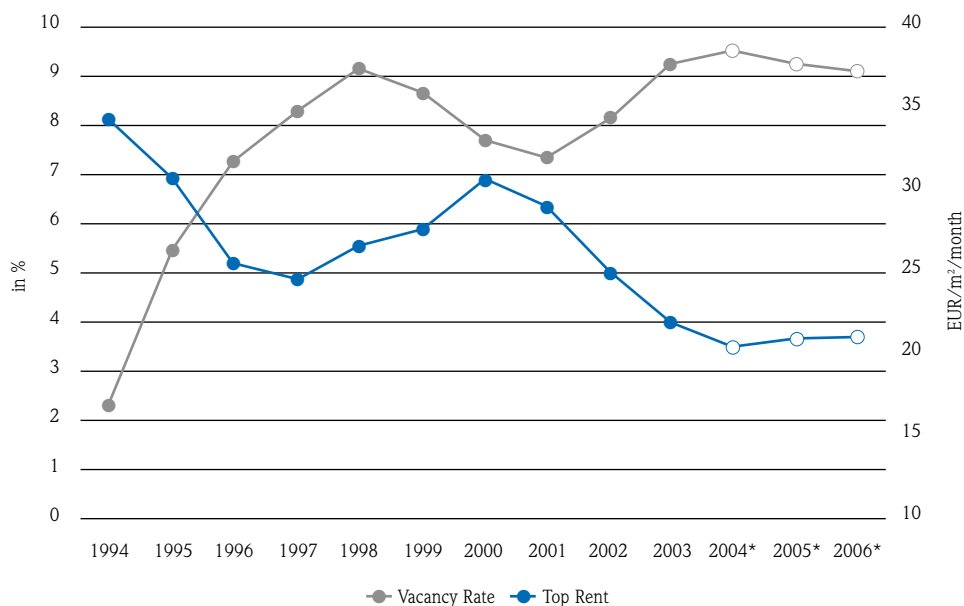
When however considering the vacancy level in absolute figures in relation to the annual turnover of office space, the relation seen in Berlin is significantly less favourable than in the other German office centers. As a consequence of the current construction activity, a further slight increase in the vacancy rate has to be expected for 2004. A slow decline of the vacancy rate is to be expected only in the coming year.

The Berlin office market may still be characterized as definitely being a tenants' market with a large choice of state-of-the-art and low-cost space. Similar to the developments seen in other German locations, rents peaked here too in the year 2000 and have since declined. The top rent in the capital declined further towards the end of 2003, to EUR 22 per m². Rents declined by 12% compared with the year before. In individual cases, higher rents

were obtained on Potsdamer/Leipziger Platz. In addition, there was increasing willingness on the part of owners to grant incentives, so that the effective rent level continued to decline. The average office rent in Berlin-Center amounted to EUR 17 per m², in relation to the overall market; the average rent was EUR 11.5 per m². The average rent in the City-East was EUR 13.50 per m² and EUR 12.50 in the City-West. Compared with the top locations, rents in peripheral locations have declined above average. A fundamental change of the current rent situation by the end of the year is not likely. Rents will remain under pressure in 2004 again; however, a slowdown of the decline may be expected. The situation will probably stabilize at the earliest in 2005.

Despite the difficult economic environment, Berlin last year recorded strong demand for commercial real estate investments. Reasons

Development of Vacancy Rates and Top Office Rents in Berlin



*Forecast

were, in addition to the longer-term development perspectives of the city, the high inflow of funds to open-ended real estate investment funds, which last year represented the most important group of investors by far. Among important groups of investors active in the market in 2003 were insurance companies, pension funds and owner-occupiers. Prospective buyers from outside Germany showed only little commitment in the capital. In view of the market situation, investors attach particular importance to the sustainable quality of the location, the letting status and the credit-worthiness of the tenants. In addition to office property, retail property met with brisk interest. Yields in excellent office locations remained stable on the year before, whereas a slight increase was seen for peripheral locations.

The Property Market for Retail Trading

The market for retail space is characterized by the general economic development and restraint on the part of consumers. Nevertheless the development of turnover has tended to stabilize. Even though Berlin retailers in 2003 again sold less than in the previous year, the decline has at least slowed down.

The supply of retail space in Berlin has increased rapidly in recent years. The expansion of space concentrated on the construction of large-surface shopping centers located in city quarters. As a consequence, sales space per inhabitant has increased by more than 25 % since 1997. There was no development of demand commensurate with the expansion of supply so that, as a consequence, the shake-out in the market intensified.



Selected Investment Transactions in Berlin in 2003

Property	Location	Floor Area in m ² (approx.)	Purchaser
Stettiner Carrée	Center	61,000	DB Real Estate Investment GmbH
Ensemble of buildings Thiemannstraße	Neukölln	55,000	BEOS Projektentwicklung GmbH
Former Reichspost-zentralamt (Central Post Office)	Tempelhof	24,000	ABN Amro/Delbrück & Co. AG/Polis AG
Schöneweide Center	Treptow	20,800	REAL I.S. AG
Potsdamer Platz C2	Potsdamer Platz	17,000	Crédit Suisse Asset Management
Deutschlandhaus	Charlottenburg	11,000	Gerling Investment Kapitalanlage GmbH
Büro- und Geschäftshaus am Auswärtigen Amt (Office and commercial building next to the Foreign Office)	Center	4,200	SEB Immobilien-Investment GmbH

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Differences with regard to demand and obtainable rents have increased, depending on the quality of the location. There are clear differences in the rent levels between top and peripheral locations. The effects of the decline of economic performance and of the number of gainfully employed people were making themselves felt in particular in peripheral locations, reflected by vacancies and closures and problems to find tenants.

Market development in top locations such as Kurfürstendamm and Tauentzienstraße was significantly more favourable. Demand by international retailers in particular contributed to the stabilization of the prime locations (1a). A comparison on a national scale shows that prime locations in Berlin remain among the highly priced ones. Even though significant shortcomings remain with regard to the purchasing power of the inhabitants of the capital as compared to other large cities, retail trade

centrality is nevertheless relatively high, due to tourism and the large catchment area. The highest rents for small space in top locations amount to around EUR 180 per m².

Rents in highly frequented top locations are likely to remain constant in 2004, whereas in peripheral locations, further declines have to be expected. Retail real estate in prime sites (1a) remains in demand by institutional investors.

Current prices for Commercial Real Estate in Berlin

Type of Real Estate	Prime site	Forecast	Good site	Forecast	Average site	Forecast
Rents						
Office (EUR/m ² /month)	16–22	↻	12–15	↻	8–11	↻
Shop* (EUR/m ² /month)	100–180	▶	75–100	↻	20–50	↻
Yields						
Predominantly office use (%)	5,25–6,25	▶	6,5–7,4	▼	7–8,25	▼

*Shop rent criteria: Prime site = 1a location; good site = 1b location; average site = city district center
 The price spreads or values given are dependent on the location, condition, equipment (fit-out), readiness for occupancy or on architectural design, and the extent of the possible use of the building. They represent values currently realized on the market. The forecast period comprises six months.

The Market for Office Property

Dresden as an investment location has made a name for itself most recently as a result of successfully attracting new companies. The choice of Dresden as the location of a new semiconductor plant in particular is an important signal for the economic development of the Saxon capital. Impetus for follow-up investments and the creation of jobs in the region are expected from this third largest individual investment in eastern Germany since 1990, which has an investment volume of EUR 2.4 billion.

The office real estate market in Dresden, with a total stock of space amounting to 2.3 million m², is at present however definitely a tenants' market, given the generally weak economic basis. Characteristics of the current market development are low demand for office space and persistently high vacancy rates which have a dampening effect on the level of rents.

Total turnover of office space in 2003 amounted to 55,000 m². In the fourth quarter, a slight increase of letting activity was noticed, so that the level remained practically unchanged on the previous year. All in all, market momentum is low. Preferred sub-segments last year were the southern and south-eastern area of the city center. Compared with the peaks reached in the mid-1990s, the turnover volume has declined considerably. During the past ten years, an annual average of about 78,000 m², i. e. about 40 % more than in 2003 were let. The turnover of space attains only half the figure seen in Stuttgart and only one third of the turnover in Düsseldorf when compared over a 10-year period. In relation to the large office markets, Dresden thus plays a minor role. Decisions by the corporate sector on the letting of space are at present postponed as a reason of the uncertain economic situation. As a further easing of the market situation is anticipated, new leases are concluded for short terms of a maximum of three years only.



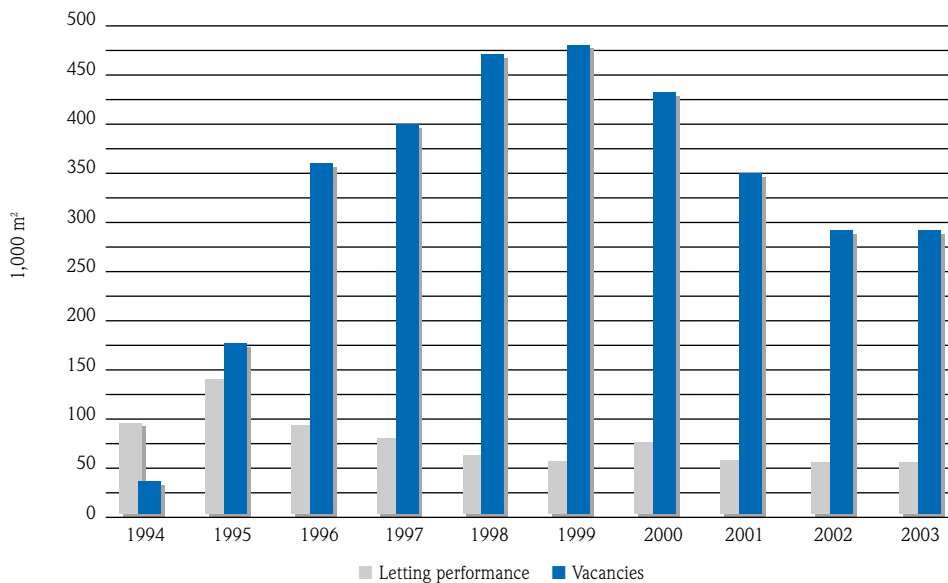
Key socio-economic data of Dresden

Indicator	Unit	Value
Inhabitants (2002)	in absolute figures	480,228
Change of the number of inhabitants (1997–2002)	in %	+3.86
Employees subject to social insurance contributions (2002)	in absolute figures	213,480
of which: in the services sector	in absolute figures	168,302
	in %	78.8
Unemployment rate* (December 2003)	in %	13.4
Unemployment rate* (December 2002)	in %	14.0
Purchasing power ratio (2003)	per inhabitant	87.7
Turnover ratio (2003)	per inhabitant	102.2
Retail trade centrality (2003)		1.17

*Local Labour Office District

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Development of Office Space Turnover and Vacancies in Dresden



RESEARCH, 2004

The Dresden office market has a strong regional character. This is also expressed by the low number of broker firms that are active nationwide and the resultant relatively low transparency of the market. There is limited activity on the part of international corporations; demand is generated nearly exclusively by companies that are already resident in the region.

Activities in the letting market are mainly characterized by the exchange of space. As a rule, the motif is to relocate to more favourable space in new buildings when existing leases expire. Often, relocation goes hand in hand with a reduction of the occupied space. As companies show hardly any propensity to expand, net absorption is low; hardly any impetus for the reduction of vacancies is to be expected from the demand side. Turnover nearly exclusively concerns small space of less than 500 m², letting of larger space is the exception. In the year 2003, groups with significant demand included engineering firms,

insurance companies, IT service providers and public authorities. Large transactions, such as the pre-letting of 7,600 m² by the Städtische Hauptbibliothek (City Library) last year are often concluded by public entities.

Construction activity in Dresden peaked in 1995 and has declined drastically in the following years due to increasing difficulties encountered in the marketing of space. Since 2000, construction activity has practically come to a standstill. In 2003 too, hardly any new space was completed due to the weak development of the market. Due to the lack of demand even for central locations, the realization of planned buildings is delayed. In the office segment, only user-specific projects or projects involving small space in mixed-use buildings in central locations are now being realized. In view of the persistent weakness of the market, no significant increase in construction activity is to be expected for the future either. A prominent new project is at present

Selected Office Leases in Dresden in 2003

Project	Location	Floor Area in m ² (approx.)	Lessee
Friedrich-List-Platz	Süd-Vorstadt (southern suburb)	2,900	WOBA Dresden
Coselpalais	Altstadt (Old Town)	1,500	Nürnberger Versicherungsgruppe
Dr.-Külz-Ring	City center	1,200	Deutsche BKK Wolfsburg

RESEARCH, 2004

the construction of an office and commercial building on Wiener Platz.

The volume of office vacancies in the Saxon capital remains at a high level. At the turn of the year 2004, about 290,000 m² of office space was ready for letting; this corresponds to a vacancy rate of approximately 12.6%. Available space is found in all locations and with equipment and fixtures of every quality. In view of the broadly based supply, the occupation of space shifts towards state-of-the-art new buildings.

Compared with the year before, the vacancy rates stabilized due to the low construction activity. A further reduction is to be expected over the short term from the supply side only, when older space, for which no lessees are found despite low rents and incentives, are gradually taken out of the market. A prerequisite for a sustainable reduction of vacancies is a clear increase on the demand side, namely as a result of the expansion of existing companies or when new companies move in. Nevertheless, this is to be expected only upon a noticeable improvement of the economic situation.

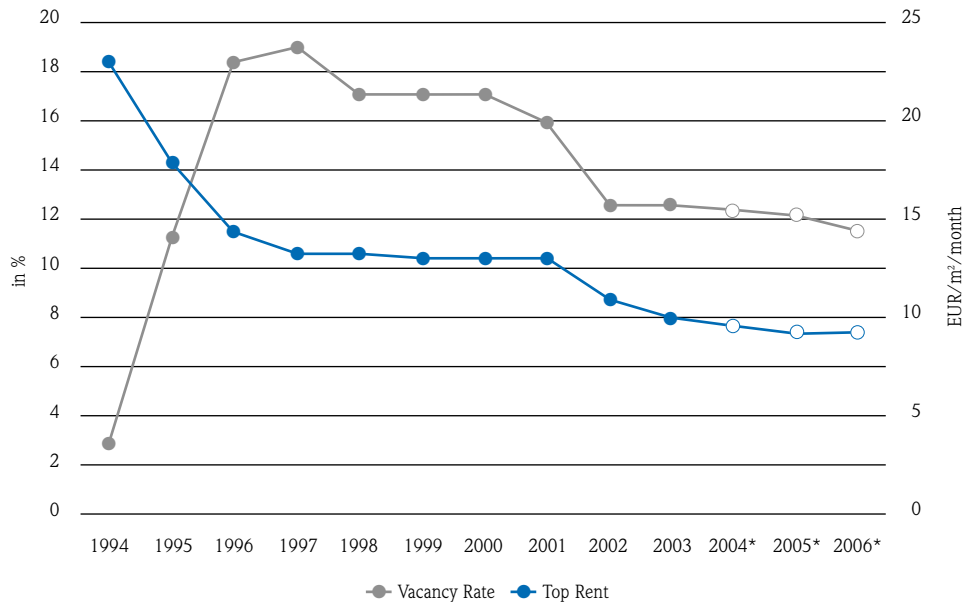


Selected current Office Projects in Dresden

Project	Location	Floor Area in m ² (approx.)	Scheduled Completion
Carree zur Glocke (Quartier II)	Altstadt (Old Town)	6,300	2006
Quartier III	Altstadt (Old Town)	5,400	2006
MK 6	Altstadt (Old Town)	2,400	2006
MK 5	Altstadt (Old Town)	12,000	2007

RESEARCH, 2004

Development of Vacancy Rates and Top Office Rents in Dresden



*Forecast

RESEARCH, 2004

Rents in Dresden have continued to drift lower in the course of the year 2003. Top rents reached a maximum of EUR 10 per m² and were thus by 9 % below the level of the year 2002. The rent level has meanwhile adjusted to the level of rent paid in eastern German regional locations such as Potsdam, Erfurt or Jena. For office space in good locations, no more than about EUR 6 or 7 per m² is paid. A significant improvement of the market sentiment is not to be expected during 2004. Given the lack of demand, further rent reductions – despite the already low level – are likely over the short term, but are expected to slow down. The granting of incentives in particular is putting a brake on the reduction of nominal rents. Rents are expected to find a stable base only in the course of 2005.

Given the market situation, hardly any activities are registered in the investment market in Dresden. According to the relatively weak lessees' market there is only a small supply of rented properties in the commercially used segment. The level of initial yields is stable, in some instances showing a slight rise due to the market risks. The level of yields that may be obtained in top locations amounts to approx. 6.5 to 7 %; due to the higher market risk this is above the figures in well-established investment centers.

The Property Market for Retail Trading

Despite the general economic situation, the Dresden city center is increasingly becoming attractive as a retail location. This is expressed by a high retail trade centrality. Demand by prospective tenants focuses on central locations between the Main Station, Altmarkt and the historic buildings along the Elbe, which offer the advantage of being easily accessible and frequented by a large number of passers-by. Polarization in the locations by site quality is increasing in line with developments observed in many other cities. Retail outlets in secondary locations, which above all also compete with shopping centers in the periphery, in contrast are encountering serious letting problems.

The redesign of the shopping street Prager Straße is expected to further strengthen the appeal of the 1a-locations. Demand for retail space in top locations often comes from retail chains. One example is the planned opening of a new flagship store by H&M. An expansion of the space on offer such as the one seen in connection with the construction activities on Wiener Platz will happen only, if tenants are found and sufficiently high rents may be obtained. The development of demand by tourists is of great importance for the local retailers. Investments such as those in the completion of Frauenkirche or the refurbishment of the Museum of Military History of the German Armed Forces increase the appeal of the city for tourists and thus contribute to an increase of retail sales.

Top rents for retail space in prime locations in Dresden amount to about EUR 70 per m², in individual cases, they may be even higher. Over the past ten years, top rents registered an above-average increase by over 20 % in a nationwide comparison, with the modernization of the space offered being one of the factors contributing to this development. As the capital of the state of Saxony is highly attractive, top rents are expected to show a stable development, despite general consumer restraint.



Current prices for Commercial Real Estate in Dresden

Type of Real Estate	Prime site	Forecast	Good site	Forecast	Average site	Forecast
Rents						
Office (EUR/m ² /month)	8–10	↻	6–7	↻	5–6	↻
Shop* (EUR/m ² /month)	45–70	↻	25–40	↻	10–20	↻
Yields						
Predominantly office use (%)	6.5–7	↻	7–8.25	↻	8.25–10	↻

*Shop rent criteria: Prime site = 1a location; good site = 1b location; average site = city district center
 The price spreads or values given are dependent on the location, condition, equipment (fit-out), readiness for occupancy or on architectural design, and the extent of the possible use of the building. They represent values currently realized on the market. The forecast period comprises six months.

RESEARCH, 2004

The Market for Office Property

The Düsseldorf market for office real estate comprises a stock of space of about 5.4 million m². Despite the variety of sectors of industry which in recent years has been the reason for a special development, clear signs of the adverse economic situation – lack of demand, declining rents and a high vacancy rate – are discernible in the office market.

In 2003, the turnover volume in the state capital declined by about 25 % on the previous year (approx. 337,000 m²), totalling approximately 253,000 m². Office space units of more than 1,000 m² accounted for the largest share of turnover, followed by a significant number of contracts concluded in the small space segment of less than 500 m² and in the segment of between 500 m² and 1,000 m². There were no lettings of large space of more than 10,000 m², with the exception of one property pre-let to Landesbank Nordrhein-Westfalen (approx. 18,000 m²).

The strongest demand came, as already in 2002, from company-related service providers, followed by the media, EDP, IT and financial services sectors that have been adversely affected by the state of the economy. As far as location is concerned, the Düsseldorf city center was the sub-segment with the highest turnover.

The fact that a large number of new enquiries have been received concerning the city area has to be positively stressed. Companies for whom a Düsseldorf address is important took advantage of the opportunities associated with a generally declining level of rents in 2003.

The volume of completed projects rose to approx. 250,000 m² in 2003 and thus clearly exceeded the figure for 2002 (approx. 190,000 m²). In terms of the stock of space, this is a ratio of 4.6 %. For the current year, a volume of completed projects of approx. 140,000 m² is expected. It is intended to bring more than 700,000 m² of new or refurbished space to the office market by 2007.



Key socio-economic data of Düsseldorf

Indicator	Unit	Value
Inhabitants (2002)	in absolute figures	571,886
Change of the number of inhabitants (1997–2002)	in %	0.16
Employees subject to social insurance contributions (2002)	in absolute figures	352,327
of which: in the services sector	in absolute figures	282,984
	in %	80.3
Unemployment rate* (December 2003)	in %	8.7
Unemployment rate* (December 2002)	in %	8.1
Purchasing power ratio (2003)	per inhabitant	125.7
Turnover ratio (2003)	per inhabitant	146.3
Retail trade centrality (2003)		1.16

*Local Labour Office District

RESEARCH, 2004

Selected current Office Projects in Düsseldorf

Property	Location	Floor Area in m ² (approx.)	Scheduled Completion
Office building*	Seestern/Left bank of the Rhine	21,700	2004
Kennedy-Haus	Kennedydamm/Golzheim	12,770	2004
Broadway Office	City center	11,000	2004
Office skyscraper GAP 15	City center	32,000	2005
Bürogebäude**	Seestern/Left bank of the Rhine	20,000	2005
World Trade Center Düsseldorf Airport	Düsseldorf-North	32,000	2006
Sky Office	Kennedydamm/Golzheim	30,000	2006
Streamer	Medienhafen	17,500	2006
Arkadiapark	Düsseldorf-North	40,000	2007
Capricorn Haus	Medienhafen	33,000	2007

*Owner-occupied; **Refurbishment

RESEARCH, 2004

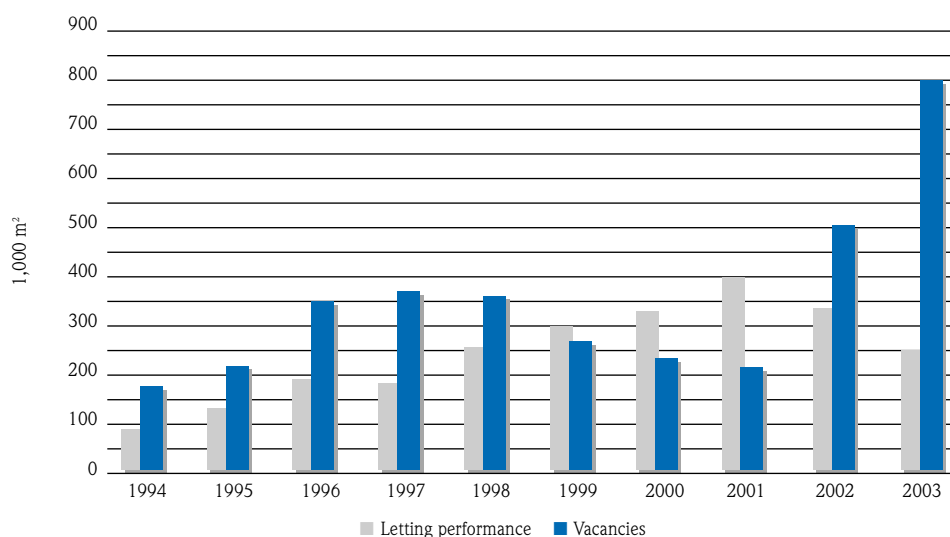
In addition to the Medienhafen (Media Port) whose extensive development is to be encouraged, Düsseldorf, as well as other large cities, possesses development areas in former industrial zones, such as the former container rail station in Bilk or the Derendorf freight station, including a number of plans for their surroundings. Whether all of these projects will actually be realized is at present still doubtful, as project developers are acting with extreme caution due to the economic situation and practically do not pursue any speculative projects, but start development activities only when 40 % to 60 % of the property has been pre-let.

The lack of demand and the rise of the stock of space led to a dramatic increase of the vacant space to about 800,000 m² at the end of 2003. Thus the vacancy rate rose from about 9.7 % (505,000 m²) in the year 2002 to approx. 14.8 %.

Older existing buildings were particularly hard hit by vacancies, so that the vacancy base in the Düsseldorf office market continues to rise.

High vacancy rates were seen in particular in the sub-segments Innenstadt (City Center), Seestern and the north of Düsseldorf, although these were due to different factors. For instance, the city center is characterized by a large stock of old buildings and Seestern – a location that helps ease the pressure on the city center – by its monoculture of large office units. The latter is predominated by the troubled IT sector, which at present does not have as much need for space as during the boom years. The north of Düsseldorf is eventually characterized by a large number of completed projects. The market is not able to fully absorb the projects completed in the north of Düsseldorf and in the Medienhafen for instance, despite increased interest in high-quality space in new buildings.

Development of Office Space Turnover and Vacancies in Düsseldorf



RESEARCH, 2004

The lack of demand and, as a consequence thereof, the growing vacancies exerted pressure on the level of rents also in the Düsseldorf office market. The obtainable top rent declined by approx. 2.3% from EUR 22 per m² in the year 2002 to approx. EUR 21.50 per m² in the

year 2003. In relation to the sub-segments, the highest rents are obtained in the city center, followed by the Medienhafen area (up to EUR 20 per m²) and Kennedydamm (up to EUR 17.50 per m²).

Selected Office Leases in Düsseldorf in 2003

Property	Location	Floor Area in m ² (approx.)	Lessee
Büropark (office park) Hansastern, Part 2	Seestern/Left bank of the Rhine	10,000	D2 Vodafone
Office building	City center-South	6,400	Landesamt für Datenverarbeitung und Statistik (LDS)
Kai 16–18	Medienhafen	5,000	A.T. Kearney
büropark (office park) west	Seestern/Left bank of the Rhine	4,500	BKK Essanelle Hair Group
Rath-Haus	Airport	3,750	Hitachi Data Systems
Büropark (office park) am Albertussee	Seestern/Left bank of the Rhine	2,500	Landesbank Nordrhein-Westfalen
Office project Adlerstraße	City center	1,455	Ubi Soft Entertainment

RESEARCH, 2004



The average rent level in 2003 was approx. EUR 12.90 per m². Compared with 2002, this is a decrease of the average rent by approx. 8.9%. In the state capital, which is increasingly developing into a tenants' market, the willingness to grant incentives is also on the rise. For the current year, we expect a further slight decline of rents.

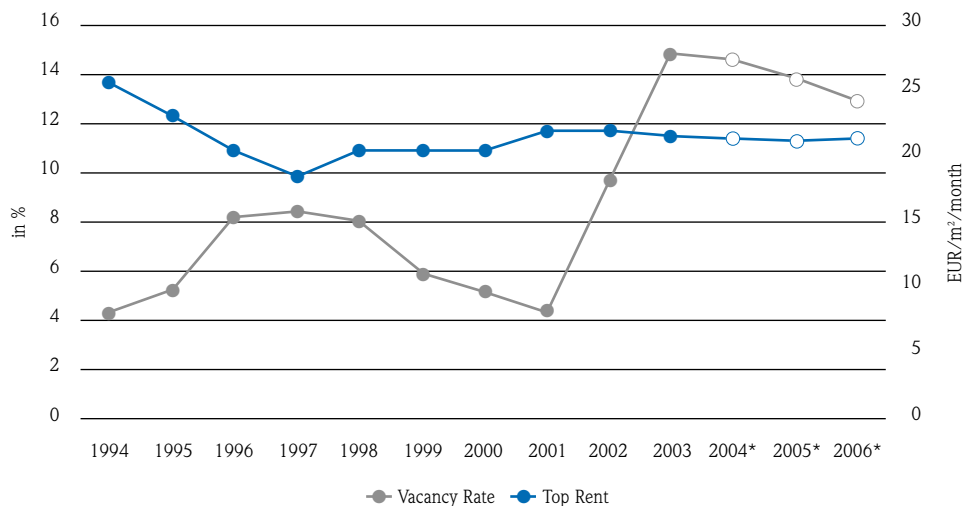
Coupled with restrained demand, the completion of a large number of new construction projects and the vacation of space led to a high vacancy level, and, as a consequence thereof, to declining rents. In the course of an economic recovery, we expect a turnaround of the trend to set in after 2006.

Pension funds, opportunity funds and open-ended real estate investment funds were the investor groups dominating the Düsseldorf investment market in 2002. Particular demand was recorded for office properties in the city center.

In addition, transactions were concluded, inter alia, in the established sub-segments Kennedydamm/Golzheim and Seestern/Left Bank. There are few offers of suitable investment products in the city on the Rhine, so that investors enter into purchase negotiations at early project stages already - provided that a certain amount of space has been pre-let.

Top yields in 2003 were in the range of 5.25 to 5.75%. In good locations, yields between 5.75 and 6.7% were attained, in average locations between 6.7 to 8.3%. For the future, it is expected that the level of yields will remain relatively stable within these ranges.

Development of Vacancy Rates and Top Office Rents in Düsseldorf



*Forecast

RESEARCH, 2004

Selected Investment Transactions in Düsseldorf in 2003

Property	Location	Floor Area in m ² (approx.)	Purchaser
Office building	Seestern/Left bank of the Rhine	20,000	The Carlyle Group
Office and service center, 1 st phase of construction	Seestern/Left bank of the Rhine	16,284	AMB Generali Immobilien GmbH
Glock Haus	Kennedydamm/ Golzheim	12,300	Rheinische Versorgungs- und Zusatzversorgungskasse
La Tour	Grafenberger Allee	10,000	APO Immobilien-Kapitalanlagegesellschaft
Ü5 – Das Blaue Haus	Kennedydamm/ Golzheim	7,000	Redevco Services Deutschland GmbH
Office and commercial building	City center	3,000	Westfälische Provinzial
DJC Deutsch-Japanisches Center (German-Japanese Center)	City center	no info	Blackstone

RESEARCH, 2004



The Property Market for Retail Trading

With as stock of space of about 1.2 million m² of sales space, Düsseldorf ranks among the leading retail locations in Germany. Among the prime locations in the city center are Düsseldorf's "luxury mile" Königsallee (Kö), Schadowstraße and Flingerstraße.

In terms of purchasing power per inhabitant, Düsseldorf ranks third in the nationwide comparison; however, the declining propensity to consume is also noticeable in the state capital. Therefore - for instance in the Kö-Galerie as well as in the Sevens and the Schadowarkaden as a consequence of lessees filing for bankruptcy or the relocation of tenants that are magnets for customers, to the Kö - interim uses may be observed. The marketing period has increased to up to six months.

Young, trend-conscious consumers are benefiting from new "young fashion" shops in the environs of Königsallee after long-established shops have moved out. In particular Schadowstraße has seen a large number of newcomers, such as Zara, Esprit, Tom Tailor, etc. and, with regard to the number of passers-by, ranks in the premier league in Germany. In Düsseldorf's prime locations (1a), the degree of branch networking attained 77 % in 2003. New leases in Düsseldorf's 1b-locations and city quarter locations are problematic.

Top rents in the prime locations amount to EUR 90 to 175 per m², with a stable trend. In all other locations, a decline of rents for retail space is to be expected over the short term.

Current prices for Commercial Real Estate in Düsseldorf

Type of Real Estate	Prime site	Forecast	Good site	Forecast	Average site	Forecast
Rents						
Office (EUR/m ² /month)	14–21.5	↻	10–14	↻	7.5–13.5	↻
Shop* (EUR/m ² /month)	90–175	↻	50–85	↻	20–40	↻
Yields						
Predominantly office use (%)	5.25–5.75	↻	5.75–6.75	↻	6.75–8.3	↻

*Shop rent criteria: Prime site = 1a location; good site = 1b location; average site = city district center
 The price spreads or values given are dependent on the location, condition, equipment (fit-out), readiness for occupancy or on architectural design, and the extent of the possible use of the building. They represent values currently realized on the market. The forecast period comprises six months.

RESEARCH, 2004

In accordance with the retail trade concept, it is planned to settle new retail companies primarily in locations integrated into the urban development of the city quarters and the city center, in order to avoid a drain of purchasing power and an uncontrolled urban spread.

The Market for Office Property

Frankfurt is that city in Germany which is most strongly integrated into the global economic structure. Accordingly, demand for office space largely dependent on international developments. The economic situation had a severely adverse effect on the Frankfurt office letting market last year again. The rapid downward trend of the office market was not least due to the high volume of recently completed projects; a significant volume of offers for sub-lets aggravated the situation still further.

Low letting activity was registered in particular during the first months of the year 2003.

The sea-change in the German banking sector deprived the city on the Main of demand; the continuing consolidation process in the sector had both direct and indirect consequences.

In contrast, stronger demand was noticeable in the second half of the year in all sectors of industry. Turnover of space for the year as a whole was, at 510,000 m², above the previous year's level, which had been low by Frankfurt standards, and exceeded the volume expected

by market participants at the start of the year. This was slightly below the average for the past ten years of about 535,000 m²; nevertheless, in a nationwide comparison no other location exceeded the volume of turnover attained. A sustainable pickup of demand is not to be expected in 2004; stabilization at the present level is probable.

The turnover of space realized in Frankfurt took place under aspects of efficiency. Companies consolidated space and reduced overcapacities. At the same time, they took advantage of the favourable fundamental conditions available to them, e. g. significantly lower rents and incentives granted by landlords. Only an insignificant volume of transactions involving sub-let space offered at considerable discounts to the market rent was arranged, despite the cost-consciousness in the corporate sector. The lack of demand by the banks which are important for the location – their share in the turnover of space fell from approximately one third in previous years to about 15 % in the year 2003 – was offset by demand from other sectors of industry. Among the latter are the IT and



Key socio-economic data of Frankfurt

Indicator	Unit	Value
Inhabitants (2002)	in absolute figures	643,726
Change of the number of inhabitants (1997–2002)	in %	–0.55
Employees subject to social insurance contributions (2002)	in absolute figures	487,736
of which: in the services sector	in absolute figures	419,208
	in %	85.95
Unemployment rate* (December 2003)	in %	7.3
Unemployment rate* (December 2002)	in %	6.0
Purchasing power ratio (2003)	per inhabitant	112.0
Turnover ratio (2003)	per inhabitant	121.9
Retail trade centrality (2003)		1.09

*Local Labour Office District

RESEARCH, 2004

Selected Office Leases in Frankfurt in 2003

Property	Location	Floor Area in m ² (approx.)	Lessee
Central Park*	Sossenheim	34,600	IBM Deutschland
Commerzbank-Skyscraper	Banking District	23,000	European Central Bank
Lurgi-Haus	Mertonviertel	22,000	Degussa AG
Office building Darmstädter Landstraße*	Sachsenhausen	14,000	Ogilvy & Mather GmbH
Grünhof, part E**	FFM-North	13,000	Youth welfare office and social welfare office
Scala West*	City-West	8,400	Sinius GmbH
Posthof**	City quarter around the Central Rail Station	5,300	Planungsverband Ballungsraum Frankfurt/Rhein-Main

*Sub-lease; **Pre-lets

RESEARCH, 2004

telecommunications sectors in particular, public entities and company-related service providers. The net absorption was slightly negative, down by approx. 10,000 m². The reason for the significant rise of the vacancy rate is essentially to be found on the supply side.

The strong construction activity that has been initiated during the boom years led to a near-record volume of completed projects in 2003. All in all, about 670,000 m² of space in new buildings were erected, 38 % more than in the year before. For the current year, a further increase in space by 410,000 m² is discernible. True, project developers are reacting to the present market situation, leading to an easing of the pressure from the supply side; nevertheless, against the backdrop of the current market situation, the relative volume of completed projects in relation to existing space remains very high, at 3.6 %.

A current big-ticket project is the office tower Skyper, which is under construction; in that

building, a total of about 44,000 m² of new office space will be created in the banking district. The EUR 480 million project will presumably be ready for occupation in early 2005. Moreover, the American project developer Tishman Speyer purchased the Zurich site near Alte Oper in late 2003. An implementation agreement which remains to be concluded with the city of Frankfurt and in which many aspects of the project will be concretized must be concluded prior to the application for the building license. The start of construction work in the current year does not seem ensured.

Due to the high volume of newly completed construction projects in connection with the slightly negative net absorption, the oversupply of space grew significantly in the city on the Main last year, namely by 58 % to 1.5 million m²; sub-let space accounts for about one third of the overall volume. Taking the average turnover volume of the past ten years as the basis, it took 2.8 years to let the vacant space. In relation to a stock of office space of

Selected current Office Projects in Frankfurt

Project	Location	Floor Area in m ² (approx.)	Scheduled Completion
Main-Airport-Center	Airport	51,000	2004
Central Park	Sossenheim	34,500	2004
Office Center	City-West	29,400	2004
Accent Office Center (AOC)	FFM-Ost/Hanauer Landstraße	22,200	2004
343 West, 1 st phase of construction	Hausen	52,000	2005
Skyper	Banking district	43,600	2005
mainBuilding, 1 st phase of construction	Banking district	31,700	2005
Garden Towers*	Banking district	22,150	2005
Tower 24	Westend	26,200	2006
Zürich Hochhaus	Westend	60,800	presumably in 2007

*Refurbishment

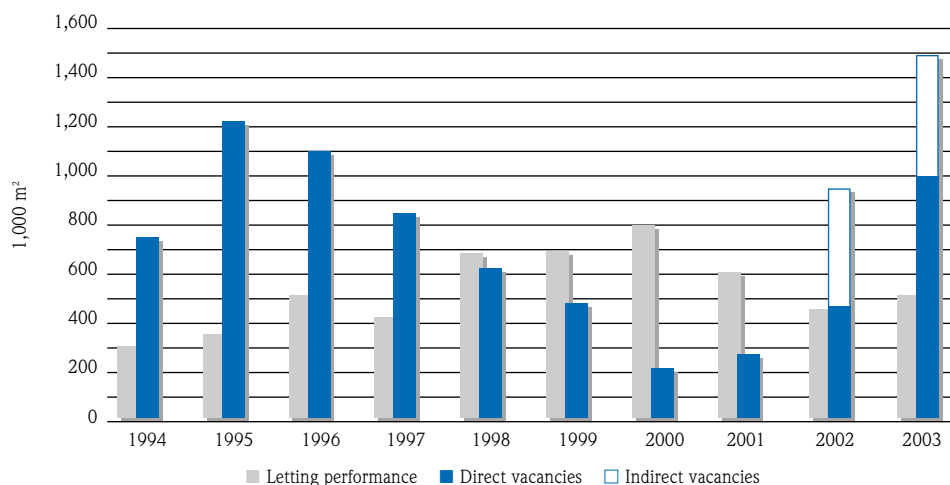
RESEARCH, 2004



11.36 million m², this results in an overall vacancy rate of 13.2 % (2002: 8.9 %). Over the short term, the vacancy volume is expected to increase further, however there will be a structural shift from new space to existing space. Even if the oversupply of space declines

over the medium term, the vacancy level of less than 3 % attained during the previous peak of office space supply is not expected to be attained again in the foreseeable future; the vacancy base is likely to be significantly higher in the future.

Development of Office Space Turnover and Vacancies in Frankfurt



RESEARCH, 2004

The present level of the oversupply of space in Frankfurt is very high by both German and European standards. As a consequence, rents fell across the board. The top rent declined to EUR 34 per m² at the end of the year; this corresponds to a decline of roughly 20 % on the previous year's level (EUR 42 per m²); the momentum of rent deterioration has thus increased on the year before (-15%). Incentives granted, such as rent-free periods, in addition reduced the effective rent.

As you would expect, the decline of the average rent was less strong. Over the course of the year, it declined from EUR 17.50 per m² to EUR 17 per m². The majority of leases concluded last year provided for rents of between EUR 10 and 20 per m².

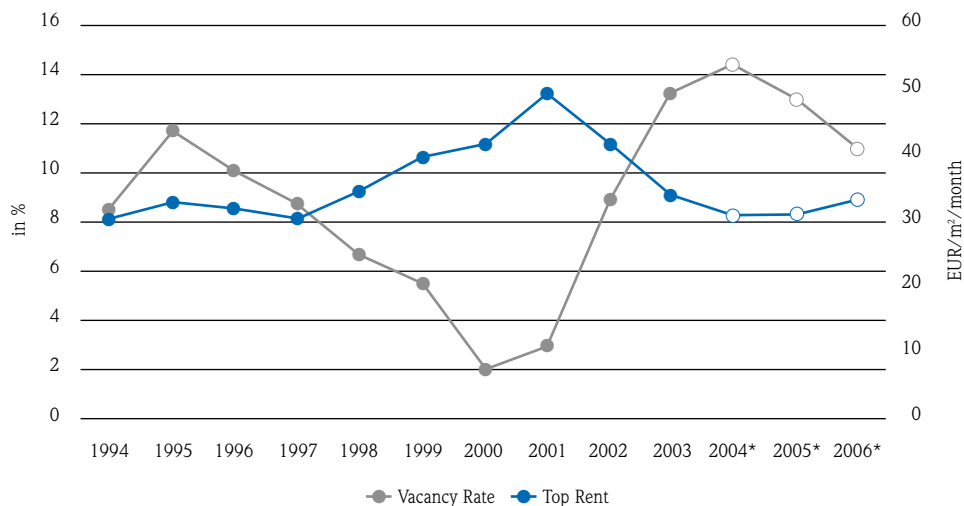
The high volume of vacant space and the relatively weak demand are expected to cause rents to decline further in 2004. The top rent is likely to approach the EUR 30 mark, but will presumably not fall below that level.

Stabilization is expected in 2005 at the earliest and will partly be due to a structural shift of vacancies from new space to existing space and not solely to a reduction of vacancies in general.

Over the medium term, the office market in Frankfurt is expected to receive positive impetus – for instance with regard to the infrastructure (further expansion of the airport, important railway hub), the international corporate community and the importance of the city as a European financial center – from the structural advantages of the location. The volatility of the local office market will nevertheless be relatively high in the nationwide comparison, in both upswing and downswing phases, also in the future.

The commercial investment volume placed in Frankfurt in 2003 was halved to EUR 1.35 billion compared with the previous year's level of about EUR 2.7 billion. In this connection, the fact that 2002 had been a very successful year for Frankfurt in terms of invested funds

Development of Vacancy Rates and Top Office Rents in Frankfurt



*Forecast

RESEARCH, 2004

must be taken into consideration. The decline of total capital invested reflects the tendency of institutional investors to increasingly invest outside Germany. Nevertheless, open-ended real estate funds accounted for about half of the capital invested; seen against the backdrop of the high inflows of funds, this is anything but astonishing. However, closed-end real estate investment funds were also strongly represented on the purchasers' side. The creditworthiness of lessees and the terms of the leases were very important purchase criteria in this respect. In addition, investments were made for the purpose of owner occupation. As far as location was concerned, a shift towards the periphery was noticeable in 2003.

The attractiveness of Frankfurt as an investment location is at present adversely affected by lower yields in the international comparison, coupled with an unsatisfactory letting situation,

comparable to that observed in all other German investment centers. Nevertheless, investors will continue to focus on Frankfurt as a nationally and internationally important location for trade and industry.

For top properties in prime locations, yields amounted to up to 5.3% and thus developed stably compared with the year before. Reasons are both the high volume of money seeking investment and the traditionally low elasticity of yields in Germany. In the current year again, a high letting level and tenants of high creditworthiness, together with a trend towards unchanged yields, is to be expected for good properties.



Selected Investment Transactions in Frankfurt in 2003

Property	Standort	Fläche in m ² (ca.)	Käufer
Office project	City-West	22,000	Sparkassen Informatik GmbH
Amphitron	Messe/Frankfurt Fair area	19,800	WestInvest Gesellschaft für Investmentfonds mbH
Westhafen Pier 1–5	Westhafen	16,400	SEB Immobilien-Investment GmbH
Office building N49	Niederrad	15,900	SEB Immobilien-Investment GmbH
Office building Hahnstraße 31–35	Niederrad	13,900	DEFO Deutsche Fonds für Immobilienvermögen GmbH
Administrative building	FFM-East/Fechenheim	10,300	DIC AG
Westsite, 1 st phase of construction	Gallusviertel	7,600	Deka Immobilien Investment GmbH

RESEARCH, 2004

The Property Market for Retail Trading

The Frankfurt retail market consists of a predominant retail core and retail centers located in the periphery and in the surrounding region, which absorb purchasing power. Shopping centers worth mentioning are Main-Taunus-Zentrum, Nord-West-Zentrum, Isenburg-Zentrum and Hessen-Zentrum. Major shopping centers in city quarters are Berger Straße, Leipziger Straße and Schweizer Straße.

Zeil with its neighbouring streets such as Bibergasse or Steinweg is the main shopping area. The 1a location in Frankfurt is the pedestrian area of Zeil, i. e. the section between Hauptwache and Konstablerwache. Here, rents amount to up to EUR 200 per m², irrespective of the difficult situation in the German retail trade. A large number of national and international retail chains predominate. The former Ammerschläger department store has now been let to Zara and Puma; Mexx moved into the premises formerly used by HMV. In Frankfurt, too, a continuing polarization is evident with regard to locations favoured by tenants;

peripheral locations are suffering from flagging demand and rent declines.

It is foreseeable that Zeil will underline its importance as the central shopping destination; conversions and development measures will continue to contribute to this change for the better. The most important project is the development of the site of the former Central Post Office on Zeil by the Dutch developers MAB. Construction of the big-ticket project, comprising about 47,000 m² of retail space, is scheduled to start in July 2004, with completion planned by 2007. Over the longer term, Zeil is expected to see competition from the retail elements of the UEC whose construction is planned in the immediate vicinity of the Frankfurt Trade Fair. Plans for this project however have made less progress than those for the MAB project.

Current prices for Commercial Real Estate in Frankfurt

Type of Real Estate	Prime site	Forecast	Good site	Forecast	Average site	Forecast
Rents						
Office (EUR/m ² /month)	23–34	↻	14–24	↻	10–15	↻
Shop* (EUR/m ² /month)	110–200	▶	50–110	↻	22–50	▶
Yields						
Predominantly office use (%)	5.3–6	▶	6.2–7.4	▶	7.7–9.2	▶

*Shop rent criteria: Prime site = 1a location; good site = 1b location; average site = city district center

The price spreads or values given are dependent on the location, condition, equipment (fit-out), readiness for occupancy or on architectural design, and the extent of the possible use of the building. They represent values currently realized on the market. The forecast period comprises six months.

RESEARCH, 2004

The Market for Office Property

The metropolis of Hamburg is not only the second largest city in Germany but, with a stock of space of about 12.7 million m² also ranks among the largest German office property markets. With a turnover in office space of about 300,000 m² in all at the end of 2003, the Hanseatic city is following the nationwide trend towards relatively low demand. Space turnover, with owner-occupiers accounting for a share of approximately 10 %, declined by about 7 % (2002: 320,000 m²) on the year before. The majority of contracts concluded were for an exchange of space, so that the net absorption continues to decline. In particular, space in the small and medium-sized segments of up to 1,000 m² and between 1,000 and 1,500 m², respectively, was let; an exception was the large lease (19,000 m²) to the Philips Group in St. Georg.

As in 2002, the central locations such as the City (Altstadt/Neustadt), City South and the expanded city center recorded the highest demand in 2003 again. Tenants took advantage

of the market situation and moved to the prestigious locations that had become more cost-efficient in comparison to previous years.

Among the sectors of industry experiencing high turnover was the heterogeneous group of consultancy firms, insurance companies, banks and financial services providers as well as other service providers. The consolidation of New Economy enterprises has progressed further, reflected by the slight increase of demand from the sectors of information and communications technology as well as media and advertising compared with 2002.

Hamburg is characterized by a high project volume. Over the next few years, approximately 1.3 million m² of office space are in the pipeline. Nevertheless it is uncertain whether the entire project volume will be realized, as developers have become more cautious and will go ahead with speculative projects only if and when the market situation improves significantly. At present, about 400,000 m² of space are under construction, of which approx. 170,000 m² are expected to be completed in



Key socio-economic data of Hamburg

Indicator	Unit	Value
Inhabitants (2002)	in absolute figures	1,728,806
Change of the number of inhabitants (1997–2002)	in %	1.2
Employees subject to social insurance contributions (2002)	in absolute figures	767,541
of which: in the services sector	in absolute figures	611,299
	in %	79.6
Unemployment rate* (December 2003)	in %	9.7
Unemployment rate* (December 2002)	in %	9.3
Purchasing power ratio (2003)	per inhabitant	108.6
Turnover ratio (2003)	per inhabitant	121.9
Retail trade centrality (2003)		1.12

*Local Labour Office District

RESEARCH, 2004

Selected current Office Projects in Hamburg

Project	Location	Floor Area in m ² (approx.)	Scheduled Completion
Oval Office	City North	26,000	2004
Haus am Mittelkanal	City South	15,800	2004
Quartier am Zeughaus, 2 nd phase of construction	Eppendorf	28,000	2005
Philips headquarters in Germany	St. Georg	19,000	2005
SPS-building*	Hafenrand/Port environs	17,000	2005
Office building**	City North	13,650	2005
AirportBusinessCenter	Airport	12,250	2005
Office building	City	11,150	2005
PrimeParc, 2.-4. BA	Harburg	10,500	2005
Hühnerposten (new building)	St. Georg	40,000	2006

*Owner-occupier; **Refurbishment

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the current year and another 230,000 m² in 2005. In 2003, the volume of completed space amounted to about 250,000 m².

Among the impressive development sites in Hamburg are HafenCity Hamburg (Überseequartier, approx. 240,000 m² of gross floor area, with a mix of functions, such as work, living and leisure) for which investor competitions are at present still being organized, and Harburger Channel (development into a technology-oriented city quarter close to the Technical University; inter alia, conversion of old port buildings into state-of-the-art offices).

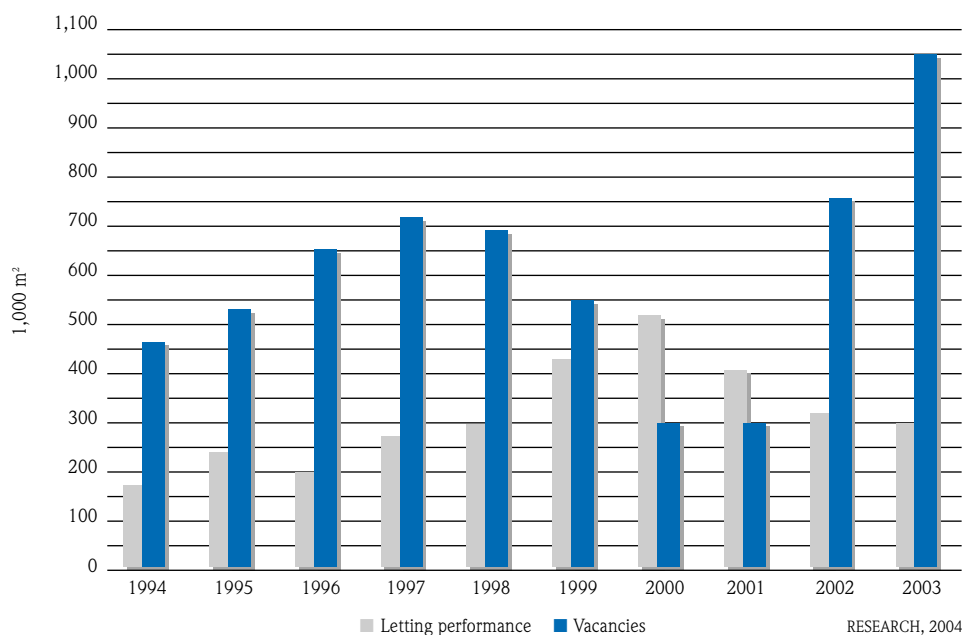
In the city on the Alster, the share of vacant space of approximately 6.1% (760,000 m², 130,000 m² of which has been sublet) in the year 2002 rose to 8.3% (1,050,000 m², 150,000 m² of which has been sublet) in the year 2003 and thus for the first time exceeded the million-square metre-mark.

Due to the high volume of completions seen during the past few years, vacancies are seen not only for space whose quality of fixtures and equipment is low, but newly built space is also considerably affected. Considerable vacancy levels are registered in the City, City South and the expanded city center. These submarkets account for a large share of completed office space which came to the market in 2003.

For the current year, a further increase of vacant space is expected, due to lack of demand and the number of completions, which is likely to persist until the end of 2005 (vacancy rate of approx. 8.9%).

The rise in the office space supply and cyclically induced decline of demand put pressure on the level of rents in the Hanseatic city. In 2003, top rents declined by 2% to EUR 20 per m² on the year before (2002: EUR 21 per m²). The highest rents were obtained in the city

Development of Office Space Turnover and Vacancies in Hamburg



center of Hamburg (up to EUR 20 per m²), in the port area (up to EUR 19.5 per m²) and in the HafenCity area (up to EUR 18 per m²). Rents in prime sites in Hamburg range between

EUR 14 and 20 per m², in good sites between EUR 8 and 13 per m² and in medium sites between EUR 5 and 9 per m².

Selected Office Leases in Hamburg in 2003

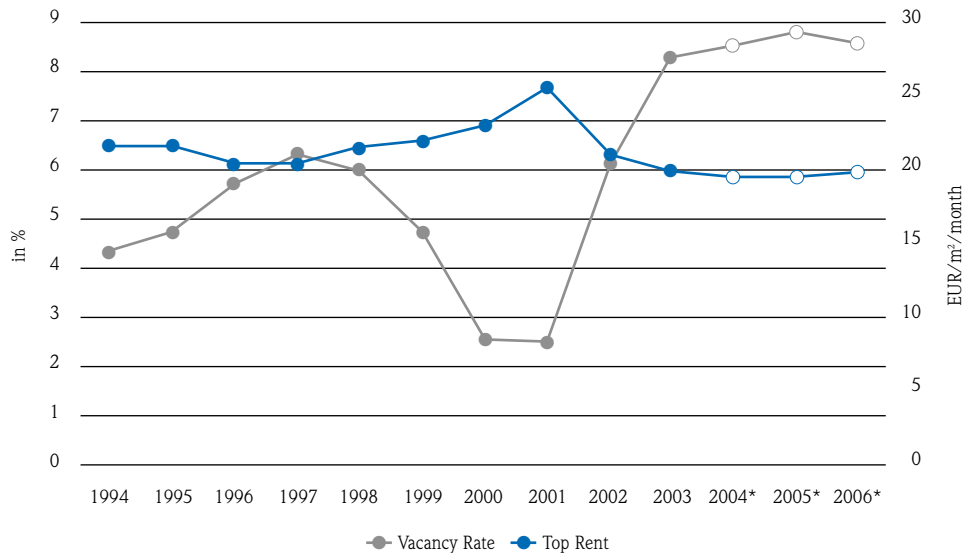
Property	Location	Floor Area in m ² (approx.)	Lessee
Office building Sechslingspforte*	St. Georg	19,000	Philips
Office 3001	Bahrenfeld	10,600	Reemtsma Zigarettenfabriken GmbH
Tri Towers, 2 nd phase of construction*	City-South	7,100	Barmer Ersatzkasse
Office Tower Burmahauss*	City	2,800	Welding GmbH
Haus am Mittelkanal	City-South	2,130	Wincor Nixdorf International GmbH
Elbhof	City	2,000	Germanischer Lloyd
Kontor 4	City-South	1,450	Northrop Grumman Sperry Marine

*Pre-lets

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Development of Vacancy Rates and Top Office Rents in Hamburg



*Forecast

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The currently prevailing market situation makes Hamburg a tenants' market. Increasingly, incentives are being granted to tenants. Due to the large supply of space, we expect a further decline of rent level in the current year, however not at the dramatic scale seen in 2002 and 2003. For 2004 and 2005, we forecast a decline of top rents to below the EUR 20 mark.

The rising supply of space, together with declining absorption rate, led to rent corrections in Hamburg, with the Hanseatic city benefiting from its relatively broadly based industry structure. In the course of an economic recovery, we expect a turnaround of the trend to set in after 2006.

Hamburg as an investment market was characterized by small-volume transactions in 2003. The total volume, at approx. EUR 0.85 billion, did not attain the previous year's figure of EUR 1.25 billion. The strongest

demand was seen for mixed-use properties, accounting for 44%; properties purely used for office purposes accounted for a share of 42%.

Among the predominant investor groups were open-end real estate investment funds and insurance companies. The high percentage of private investors is characteristic of the investment market in Hamburg. Contrary to other important real estate centers, this investor group accounted for 30% of all transactions concluded in Hamburg.

Due to the declining rents, yields have increased slightly. In top locations, yields range between 5.25 and 6%, in good locations between 6.25 and 7.5% and in average locations between 7.7 and 9%.

For the future, yield levels are expected to remain stable within these ranges.

Selected Investment Transactions in Hamburg in 2003

Property	Location	Floor Area in m ² (approx.)	Purchaser
Office project	City North	36,450	Euroland
Phönix-Center	Harburg	26,500	Deutsche EuroShop AG
Quartier am Zeughaus, 1 st phase of construction	Eppendorf	15,440	WestInvest GmbH
Office building	City-South	9,750	WestInvest GmbH
Office building	City	6,000	WestInvest GmbH
Office and commercial building	City	4,730	Redevco Services Deutschland GmbH
Projekt Haus Nr. 1	Hafenrand/Port area	3,700	Deka-Immobilien Investment GmbH

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The Property Market for Retail Trading

The Hanseatic retail market comprises about 2.3 million m² of sales space. The city center is characterized, inter alia, by a large number of shopping arcades, such as Alte Postpassage, Bleichenhof, Gänsemarkt Passage, Hamburger Hof, the Levante-Haus, etc. Gänsemarkt, Jungfernstieg, Große Bleichen, Poststraße, Neuer Wall (City West) as well as Mönckebergstraße and Spitalerstraße (City East) rank among the 1a locations in the city center. In 2003, the latter made it to the top ten of the most highly frequented shopping streets in Germany. With Europa Passage (35,000 m² of sales space), a further downtown shopping center is in its planning stage. It is scheduled to open in 2006.

Hamburg's retail market occupies a certain special position in the nationwide comparison, as, in addition to the downtown market, the city has a number of sought-after locations in city districts and shopping centers, such as Eppendorfer Baum, Eppendorfer Landstraße, Blankeneser Bahnhofstraße, Tibarg Center am Niendorfer Markt, Bilstedter Center, etc. A characteristic feature of the prospering city district locations is an, in some instances, higher rent level than in the 1b locations.

Current prices for Commercial Real Estate in Hamburg

Type of Real Estate	Prime sites	Forecast	Good sites	Forecast	Average sites	Forecast
Rents						
Office (EUR/m ² /month)	14–20	↻	8–13	↻	5–9	↻
Shop* (EUR/m ² /month)	75–190	↻	10–40	↻	20–50	↻
Yields						
Predominantly office use (%)	5.25–6	↻	6.25–7.5	↻	7.7–9	↻

*Shop rent criteria: Prime site = 1a location; good site = 1b location; average site = city district center
 The price spreads or values given are dependent on the location, condition, equipment (fit-out), readiness for occupancy or on architectural design, and the extent of the possible use of the building. They represent values currently realized on the market. The forecast period comprises six months.

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At present, rents in the 1a locations range between EUR 75 and 190 per m², in the 1b locations between EUR 10 and 40 per m² and in the city district locations between EUR 20 and 50 per m².

A general decline of demand is expected in the current year, with the exception of the top locations, and, as a consequence thereof, a deteriorating level of rents.

The effects of the economic situation are making themselves felt in Hamburg too. A lack of demand for retail space and rising vacancy rates – with the sole exception of the top locations – are characteristic of the present retail market. In line with the nationwide trend, international chain stores determine demand and generate turnover of space in 1a locations, such as H&M and Nike with the opening of their new stores in Spitalerstraße.

The Market for Office Property

The Cologne office market has a stock of office space of about 6.5 million m². The cathedral city stands out as a relatively stable office market, due to a heterogeneous industry structure.

Space turnover is relatively high and, with approx. 150,000 m² at the end of 2003 nearly attained the previous year's level (approx. 160,000 m²). A special development is responsible for the good result: a rather atypical large lease, by Cologne standards, of 45,000 m² in the first half of 2004 to Kölner Stadtsparkasse in Ossendorf.

In addition, leases in the size category of 2,000 to 5,000 m², such as those by Deutsche Bahn or Japan Tobacco, and a large number of small unit leases in the segment of between 200 and 500 m² have been characteristic of the Cologne office market in 2003.

The heterogeneous group of major tenants, consisting of banks and financial service

providers, trading companies, the public sector, IT and communications service providers as well as companies from the media and advertising sectors, emphasizes the industry mix of the city on the Rhine and its diversified office market.

Among the office locations with the highest turnover are the city center of Cologne and Ehrenfeld/Braunsfeld. However, the city center had to cede its traditional first place to Ossendorf/Nippes, due to the large lease concluded for space there.

With about 260,000 m², the volume of completions in 2003 rose by nearly half on the previous year's figure. In relation to the total stock of space, this is a ratio of 3.8%. In the past, the forecasts for 2004 were at a similarly high level as in the year before. Against the backdrop of the economic situation and the resultant growing vacancy rates and declines of the rent level, restraint is expected on the part of developers and investors, so that rather a volume of completions of 100,000 m² is to



Key socio-economic data of Cologne

Indicator	Unit	Value
Inhabitants (2002)	in absolute figures	968,639
Change of the number of inhabitants (1997–2002)	in %	0.45
Sozialversicherungspflichtig Beschäftigte (2002)	in absolute figures	466,453
of which: in the services sector	in absolute figures	368,618
	in %	79.0
Unemployment rate* (December 2003)	in %	11.8
Unemployment rate* (December 2002)	in %	11.1
Purchasing power ratio (2003)	per inhabitant	114.1
Turnover ratio (2003)	per inhabitant	135.5
Retail trade centrality (2003)		1.19

*Local Labour Office District

RESEARCH, 2004

Selected current Office Projects in Cologne

Property	Location	Floor Area in m ² (approx.)	Scheduled Completion
Medienzentrum (media center) Ossendorf Coloneum, 4 th phase of construction	Ossendorf	45,000	2004
Verwaltungskomplex AXA Versicherung – Erweiterung* (expansion of the office complex)	Holweide	40,000	2004
Kap am Südkai	City	12,000	2004
Office building Stolberger Bogen, 1 st phase of construction	Ehrenfeld/ Braunsfeld	14,200	2006
Cäcilium	City	13,000	2006
Büropark Mercedes Allee	Ehrenfeld/ Braunsfeld	45,000	2007
ICE-Terminal Köln/Deutz	Deutz	32,000	2007
Büro-Campus-Deutz – Torhaus		10,500	2007

*Owner-occupier

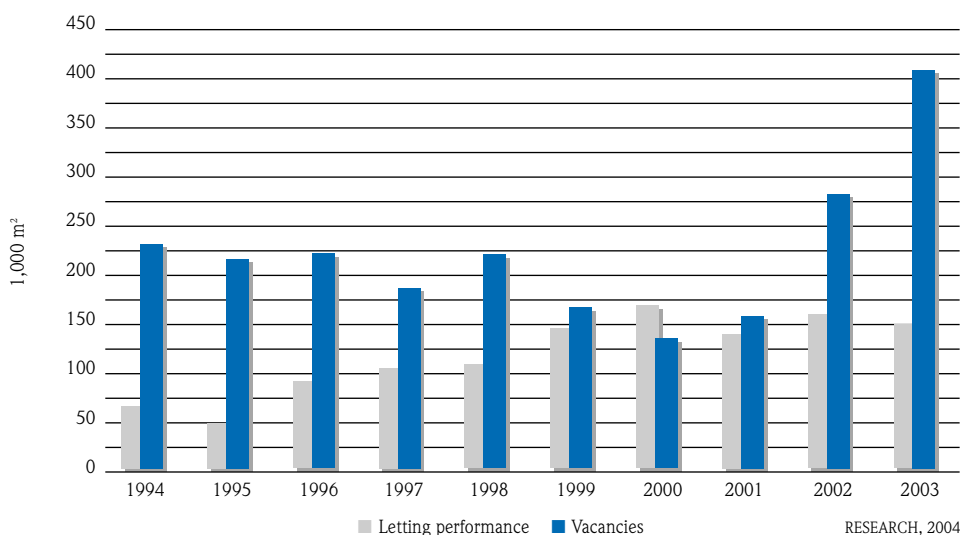
RESEARCH, 2004

be expected. Thus, it is uncertain when the further construction stages of the impressive Rheinauhafen project and of the ICE train station in Deutz together with the planned development of skyscrapers in the environs will be realized.

The development of the vacant space was particularly striking: At the end of the year, they increased by about 130,000 m² to approx. 410,000 m² on the previous year's figure. The vacancy rate rose from about 4.4% to approx. 6.3%. This demonstrates that the Cologne market is not fully impervious to against the prevailing economic situation. The factors primarily responsible for the rise of the vacancy rate were the relatively low absorption of space and the volume of new buildings that came to the market. The Cologne office market was

characterized less by expansion than by an exchange of space; in particular existing older buildings remained vacant. In terms of location, sub-segments such as the city center and Ehrenfeld/Braunfels were especially affected. In a nationwide comparison, the cathedral city still has a relatively low vacancy rate; however, more than 100,000 m² of office space is still available to the market for sub-letting. For the years 2004 and 2005, we forecast a further increase to about 8%.

Development of Office Space Turnover and Vacancies in Cologne



The increasing vacancies exerted pressure on the development of rents also in Cologne. Whereas in 2002, the top rent had still amount-

ed to EUR 20 per m², it fell by 2.5 % to EUR 19.50 per m² in 2003. The increased supply of space for subletting had a negative effect on the

Selected Office Leases in Cologne in 2003

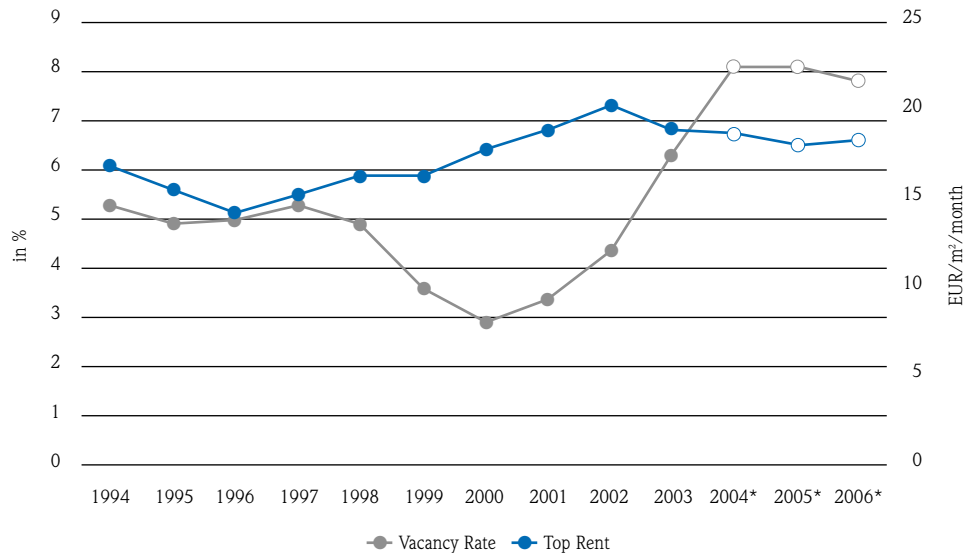
Property	Location	Floor Area in m ² (approx.)	Lessee
Medienzentrum Ossendorf Coloneum, 4 th phase of construction* (media center)	Ossendorf	45.000	SKI Standort Köln Immobilien GmbH & Co. KG
Office building*	City	12.800	Linklaters Oppenhoff & Rädler
Köln Triangle Office*	Deutz	6.800	DB Projekt Bau GmbH
Office building	City	6.000	Bundesamt für Güterverkehr
MCC Maarweg Creativ Center	Ehrenfeld/Braunsfeld	4.000	Kölner Verkehrs-Betriebe AG
Kalk-Karree, 1 st phase of construction Ämterbebauung (local authority offices)	Kalk	3.000	Cologne Licensing Office
Forum – Media Park, Block 5, parts A–E*	MediaPark	2.600	JT international Germany GmbH

*Pre-lets

RESEARCH, 2004



Development of Vacancy Rates and Top Office Rents in Cologne



*Forecast

RESEARCH, 2004

rent level. Meanwhile, the cathedral city also sees an increase in the granting of incentives. Despite restrained demand and rising vacancies, we expect only a slight decline of the top rent in the future.

Rising vacancy rates led to slight corrections of rents, with Cologne benefiting from its broadly diversified structure of trade and industry. In the course of an economic recovery, we expect a turnaround to set in after 2006.

So far, the investment market in Cologne has mainly been determined by regional and local investors (funds, insurance companies, owner-occupiers). The objective for Cologne as an office location is to increasingly source investors from outside Cologne and international investors. The planned skyscraper concept, inter alia, is intended to provide support in this respect. The supply of prestigious large units of office property for international investors is at present limited. Only few properties

changed hands in the year 2003. Despite an excellent infrastructure, Cologne has so far not been able to close the gap to the major German property centers. Last but not least, the relatively low amount of information available on the commercial property market in Cologne must be quoted as one of the reasons.

Top yields at present amount to between 5.7 and 6.75%. In the short term, a stable level of yields is to be expected.

Selected Investment Transactions in Cologne in 2003

Property	Location	Floor Area in m ² (approx.)	Purchaser
Verwaltungskomplex AXA Versicherung – Erweiterung (expansion of existing office complex)	Periphery: Holweide	55,400	AXA Colonia Immobilienfonds Merkens XXIII
Office building	City	5,667	Deka Immobilien Investment GmbH
Office building	City	3,400	APO Grundstücksfonds AVNR 1
Siebengebirge	City	no info	Pandion Projektentwicklung GmbH

RESEARCH, 2004



The Property Market for Retail Trading

Cologne and Düsseldorf together occupy a dominant position in the retail market in North Rhine-Westphalia. Even though the propensity to consume has generally declined in Germany due to the overall economic situation, the number of visitors to the Cologne city center remains high; this is indicated by the persistently high numbers of passers-by in the top location Schildergasse. As in the year 2002 already, it ranked first in 2003 again, with approx. 15,000 passers-by per hour, followed by Kaufingerstraße in Munich and Zeil in Frankfurt.

Demand in the retail market is dominated by national and international textile chain stores, which open flagship stores – mostly in the size category of between 300 and 800 m² – in the city center and as a rule pay rents of up to EUR 120 per m². In addition to Schildergasse, Hohe Straße and Ehrenstraße, among others, are popular locations. The Ehrenstraße is increasingly developing into a trendy mile

with fashion shops for young target groups in particular. A demand overhang exists at present only in the absolute top locations Hohe Straße and Schildergasse. The degree of branch networking in the latter is 89.9%. 1b-locations and traditional city district locations are suffering from a lack of demand.

In accordance with demand, top rents of up to EUR 185 per m² are paid in Schildergasse. In special cases, even rents of up to EUR 200 per m² are obtained. In Hohe Straße, top rents amount to between EUR 160 and 180 per m², on Neumarkt to EUR 92 per m² and in Ehrenstraße to between EUR 70 and 90 per m². In the traditional city district centers, such as Cologne-Ehrenfeld (Venloer Straße) and Cologne-Nippes (Neusser Straße), top rents in some instances declined by EUR 3 to 5 per m² to EUR 35 per m². For the future too, a further decline of rents in the 1b locations and the city district locations is expected. Only the 1a locations continue to present a relatively stable picture.

Current prices for Commercial Real Estate in Cologne

Type of Real Estate	Prime sites	Forecast	Good sites	Forecast	Average sites	Forecast
Rents						
Office (EUR/m ² /month)	13–19.5	↻	10.5–14	↻	7.5–13	↻
Shop* (EUR/m ² /month)	75–185	↻	30–60	↻	15–35	↻
Yields						
Predominantly office use (%)	5.7–6.7	↻	7–7.7	↻	8.3–10	↻

*Shop rent criteria: Prime site = 1a location; good site = 1b location; average site = city district center

The price spreads or values given are dependent on the location, condition, equipment (fit-out), readiness for occupancy or on architectural design, and the extent of the possible use of the building. They represent values currently realized on the market. The forecast period comprises six months.

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The largest retail project of the year 2004 (scheduled completion: autumn of 2004) are the Köln Arcaden (27,000 m² of sales space) on the right bank of the Rhine. Due to the stagnation in retail trade, shifts of purchasing power that are to be expected may be avoided only by a further positioning of the traditional Cologne city center locations. City district locations are expected to encounter problems in holding their ground.

The Market for Office Property

Leipzig is the German candidate in the bid to host the 2012 Summer Olympics. The organization of large events has a number of effects on the property market. These effects are mostly indirect ones and noticeable only over a prolonged period of time. In principle, the effects on the regional property market are based on decisions that are very strongly influenced by factors such as image and self-portrayal of the location. Infrastructure measures are therefore at present being pushed ahead in Leipzig. For instance, the extension of the southern by-pass route A 38 shall be completed by the end of 2004. Work on the City-Tunnel between the central rail station and Bayerischer Bahnhof will start this summer. The decision on the venue of the 2012 Summer Olympics will be taken by the IOC in July 2005.

In 2002, turnover of office space continued to stagnate in Leipzig on a low level. The letting volume totalled about 76,000 m² and thus

approximately corresponded to the previous year's figure of 78,000 m². This was significantly below the average turnover of space during the past ten years of about 93,000 m². In relation to the stock of space (approx. 3.36 million m²), about 2.3 % was let, a low figure in the national comparison, which demonstrates the low dynamics of the location.

Large leases of more than 5,000 m² were not concluded in 2003, as in the year before. The office letting market is supported by leases of small units. 70 % of total turnover relate to space of less than 500 m². This reflects the strong regional character of the market. In Leipzig, local market participants in particular are looking for small office units. Last year, advertising and media companies in particular as well as IT firms were important pillars of turnover. Company related service firms such as consultancy firms generated space turnover, even though not in the same volume as in the year before, when they together accounted for more than 40 % of rented office space.



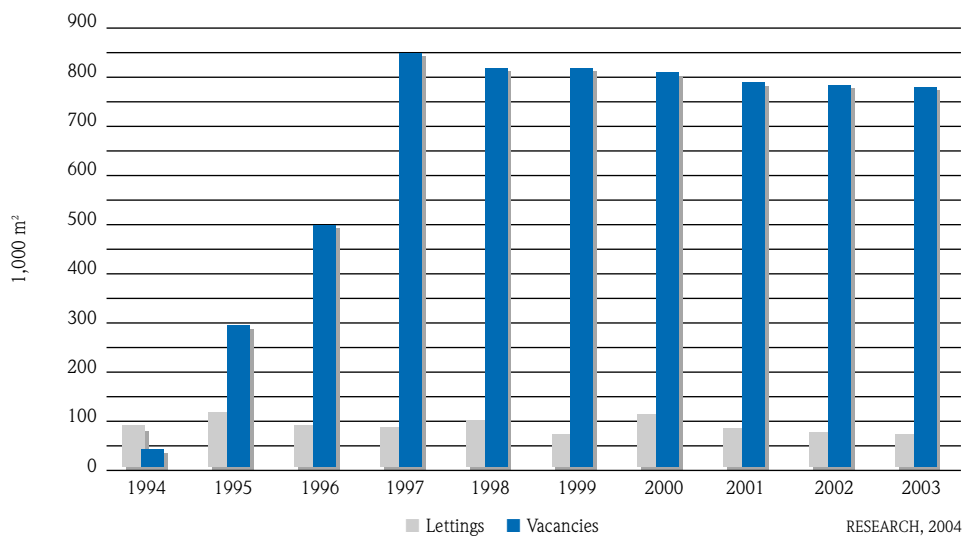
Key socio-economic data of Leipzig

Indicator	Unit	Value
Inhabitants (2002)	in absolute figures	494,795
Change of the number of inhabitants (1997–2002)	in %	7.6
Employees subject to social insurance contributions (2002)	in absolute figures	196,239
of which: in the services sector	in absolute figures	158,939
	in %	81.0
Unemployment rate* (December 2003)	in %	18.2
Unemployment rate* (December 2002)	in %	18.1
Purchasing power ratio (2003)	per inhabitant	84.4
Turnover ratio (2003)	per inhabitant	94.5
Retail trade centrality (2003)		1.12

*Local Labour Office District

RESEARCH, 2004

Development of Office Space Turnover and Vacancies in Leipzig



Absorption is low; the turnover volume essentially resulted from shifts of space. The Graphisches Viertel and the locations along the ring roads were the sought-after central locations. Among the peripheral locations, Plagwitz and the “Media City” were in particular demand.

The low level of the expansion of supply is the logical consequence following from the weak demand. At the beginning of the year 2004, about 50,000 m² of office space was under construction in Leipzig, nearly 90 % of which had not yet been let. The low construction volume and the fact that pre-lets are hardly to be obtained are evidence of the persisting market weakness and the strong imbalance between supply and demand. Against this backdrop, only limited new construction activity is to be expected also in the coming years.

Vacancies remain at a high level, due to low absorption coupled with only minor additions of space. New buildings account for a considerable part of the reserve of space. The trend towards a decline of vacancy rates that has

been noticeable in the past few years is due to the fact that part of the older space has been taken out of the market as a result of the difficult competitive situation. At the end of 2003, vacancies declined slightly to 778,000 m²; in relation to the stock of space, the vacancy rate remains very high, at 23.2 %. Based on the average space turnover during the past 10 years, about 8.4 years would be required to absorb the overhang of space. Considering that only a limited part of turnover is reflected in absorption, this period will even be considerably drawn out.

Office rents stagnated in 2003 at a low level. For office space in prime locations, rents are estimated at up to EUR 10 per m², a price that is attained also in many regional locations. Inside the city ring roads however, attractive space was already rented for about EUR 6.50 per m²; most of the leases were concluded for rents of less than EUR 8 per m².

When sourcing tenants, incentives, such as rent-free periods, continue to be granted in Leipzig, with an adverse effect on effective rents.

Selected current Office Projects in Leipzig

Project	Location	Floor Area in m ² (approx.)	Scheduled Completion
Münzblock*	Südvorstadt	4,000	2004
Messehaus & Messehofpassage*	Altstadt (old city)	10,000	2005
Marktgalerie	City center	5,000	2005
Mediencampus	Gohlis	1,600	2005

*Refurbishment

RESEARCH, 2004

This is not likely to change in the medium term; the city is expected to remain a tenants' market for the foreseeable future. State-of-the-art office premises of any size, in any location and with any quality of equipment are available at favourable prices.

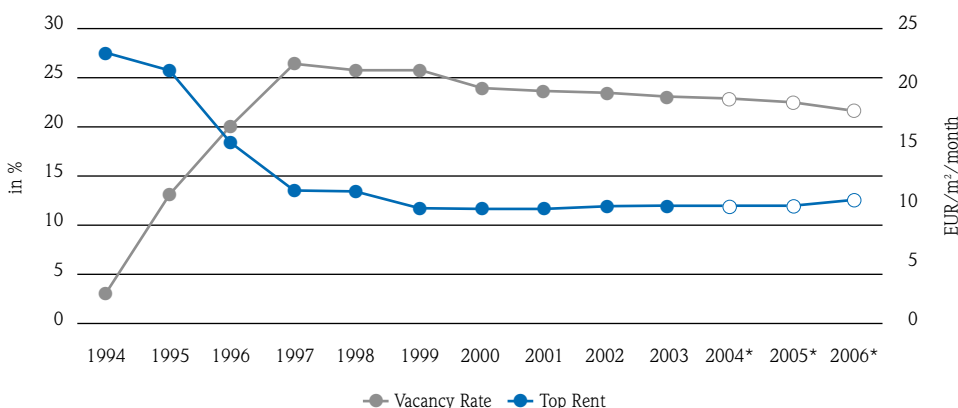
In the current year, no change for the better is to be expected in the Leipzig office letting market, the oversupply situation is going to determine the office letting market for years to come. A reduction of the overhang of space is possible only upon a sustainable recovery of demand; on the supply side, no further deterioration of the market situation is to be expected.

The turnover volume is expected to remain at a low level in the current year and rents should in all probability remain relatively stable due to incentives granted by landlords. Tenants are likely to move to higher quality space when leases expire, vacancies are gradually shifting towards properties of lesser quality and/or to less attractive locations.

Activity in the investment market in Leipzig is very restrained. Reasons are the present state of the office market and the fact that a turnaround is at present not discernible. Consistent with this situation, the purchase prices that are favourable anyway in the national comparison



Development of Vacancy Rates and Top Office Rents in Leipzig



*Forecast

RESEARCH, 2004

have declined despite the low yield elasticity in Germany. Top yields of 7 % may thus be achieved in prime locations. In good and average locations, yields range between 8.5 and 10 %. The high yield levels as compared with other office centers reflect the higher investment risk associated with Leipzig as a location.

The Property Market for Retail Trading

Compared with the office market, the situation in the Leipzig retail market may be assessed as distinctly positive. The downtown retail trade benefits from the attractive mix of trade, gastronomy and culture. The purchasing power that was lost in the 1990s to shopping destinations on greenfield sites has meanwhile been recaptured. Construction activities which are at present being started in peripheral locations, such as the former Saalepark/Nova Eventis, are a signal of the need to take action there. The qualitative level of the downtown retail trade, with international chain stores such as Benetton or Jean Pascal, is significantly higher than that of shopping centers in the periphery that rather focus on price.

Polls conducted with regard to the passers-by frequency prove that the attractiveness of the Leipzig city center has increased. Whereas Grimmaische Straße ranked among the Top Ten of retail locations in Germany in 2002 already, an even better overall result was achieved in 2003, with Petersstraße ranking 10th and Grimmaische Straße ranking 12th. Larger developments and projects such as the expansion of the local Karstadt department store and the redesign of the Petershof as well as of the Messehaus am Markt are expected to further increase the appeal of the Leipzig city center and to result in an improved positioning of the location, also in an international comparison.

Due to the positive developments in the city center, rents obtainable in prime locations maintained their previous year's levels, despite the general crisis in the retail trade. Rents of up to EUR 80 per m² were obtained in 1a-locations. In the current year, the top rent is presumed to remain stable. 1b-locations in contrast are in a significantly more difficult situation. An increasing polarization of locations is noticeable in Leipzig too; this might result in rents in 1b-locations coming under pressure in 2004.

Current prices for Commercial Real Estate in Leipzig

Type of Real Estate	Prime site	Forecast	Good site	Forecast	Average site	Forecast
Rents						
Office (EUR/m ² /month)	7.2–10	▶	5.5–7.6	▶	4.5–6.2	▶
Shop* (EUR/m ² /month)	42–80	▶	20–40	▶	8–20	▶
Yields						
Predominantly office use (%)	7–8	▶	8.5–10	▶	approx. 10	▶

*Shop rent criteria: Prime site = 1a location; good site = 1b location; average site = city district center
 The price spreads or values given are dependent on the location, condition, equipment (fit-out), readiness for occupancy or on architectural design, and the extent of the possible use of the building. They represent values currently realized on the market. The forecast period comprises six months.

The Market for Office Property

The development of Munich as an office location in 2003 was characterized by the difficult economic environment. Turnover volume had attained an historical low in the year 2000.

As a consequence of the deterioration of fundamental economic conditions, together with cost cutting measures in the corporate sector, demand for office space declined significantly in the years after. The restraint shown with regard to new leases and the trend towards a consolidation of space was observed in nearly all sectors of industry in 2003. Demand started to pick up slightly only towards the end of the year. With 500,000 m², total office space turnover was essentially at the previous year's level. When considering the longer-term development, the turnover volume for the year 2003 is about 11 % below the 10-year average. The fact that all in all a slightly positive net absorption of space was registered is encouraging. Broken down by locations, the city area accounted for 321,500 m², i. e. about two

thirds of the overall turnover, and peripheral locations for 178,500 m², in particular in the north-eastern corridor in the direction of the airport. Turnover in the city area declined by 17 % on the previous year, with the periphery gaining in importance.

Large space played an only subordinate role in rental agreements concluded in 2003: The number of leases concluded in the market segment between 2,000 and 5,000 m² declined noticeably on the previous years. The high number of leases for medium-sized and in particular small units to a large extent offset the decline of demand in this segment. A broadly-based sector mix is characteristic of the demand structure. Letting activities in 2003 were supported by industrial enterprises, EDP and information technology companies as well as consultancy companies and law firms. Demand from the telecommunications sector was comparatively low in contrast to the years before.



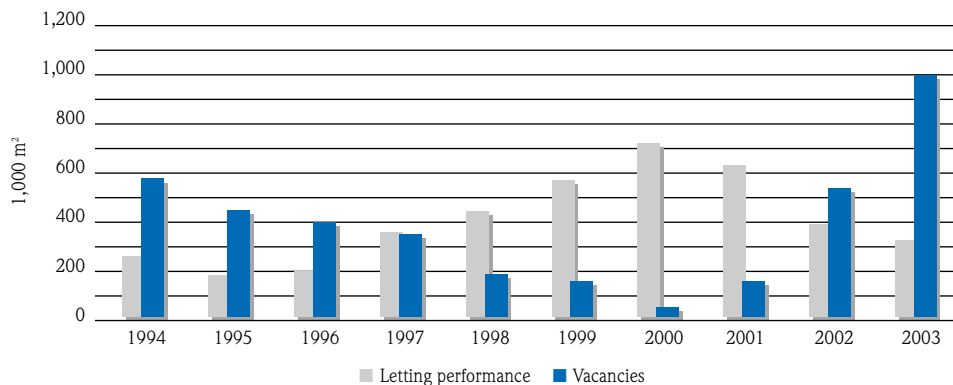
Key socio-economic data of Munich

Indicator	Unit	Value
Inhabitants (2002)	in absolute figures	1,234,692
Change of the number of inhabitants (1997–2002)	in %	+0.72
Employees subject to social insurance contributions (2002)	in absolute figures	694,559
of which: in the services sector	in absolute figures	524,410
	in %	75.5
Unemployment rate* (December 2003)	in %	5.9
Unemployment rate* (December 2002)	in %	5.6
Purchasing power ratio (2003)	per inhabitant	131.9
Turnover ratio (2003)	per inhabitant	151.6
Retail trade centrality (2003)		1.15

*Local Labour Office District

RESEARCH, 2004

Development of Office Space Turnover and Vacancies in Munich



City area excl. periphery

RESEARCH, 2004

The extreme scarcity of available office space during the years from 1998 to 2000 resulted in a boom of speculative new construction projects; new office centers were built on converted sites in the city area. In the year 2002, when demand was already on the decline, a record volume of newly built space came onto the market. Meanwhile, the volume of newly initiated projects and space under construction has dropped significantly.

Nevertheless, a total of about 640,000 m² of office space was still constructed last year, 80 % of this within the city confines. For the current year 2004, an all in all lower new construction volume of 440,000 m² is to be expected. In this connection, a further concentration on the city area is noticeable, inter alia in connection with the completion of skyscraper projects in the north of Munich. A significant drop has to be expected in the next few years.

Selected Office Leases in Munich in 2003

Property	Location	Floor Area in m ² (approx.)	Lessee
Landsberger Straße	Westend	21,800	AOK Bayern
Atrium	Moosach	12,700	ORACLE Deutschland GmbH
Park Gate (MK14)	Schwabing-North	10,500	Fujitsu Siemens Computers GmbH
Artec-Forum	City center	10,400	e.on sales and trading GmbH
Hufelandstraße*	Munich-North	7,300	BMW AG
Feilitzschstraße/Siegesstraße/Franzstraße	City periphery-North	5,000	Constantin Film AG
Unsöldstraße	City center	3,200	Hypo Real Estate Holding AG

*Pre-let

RESEARCH, 2004

Selected current Office Projects in Munich

Project	Standort	Location in m ² (ca.)	Scheduled Completion
Uptown München – sky-scraper	Moosach	42,400	2004
Highlight – Munich Business Towers	Schwabing-North	41,000	2004
Uptown München – Campusgebäude	Moosach	30,000	2004
West 4	Westend	29,000	2004
Riem Arcaden	Munich-Riem	28,000	2004
Office project Wilhelm-Hale-Straße 46	Munich-West	13,700	2004
Landsberger Straße 372	Munich-West	12,750	2004
Telekom Center	City periphery - South	62,800	2005
Landsberger Straße 150–152	Westend	23,800	2005
Palais Leopold	City periphery-North	13,600	2005

RESEARCH, 2004

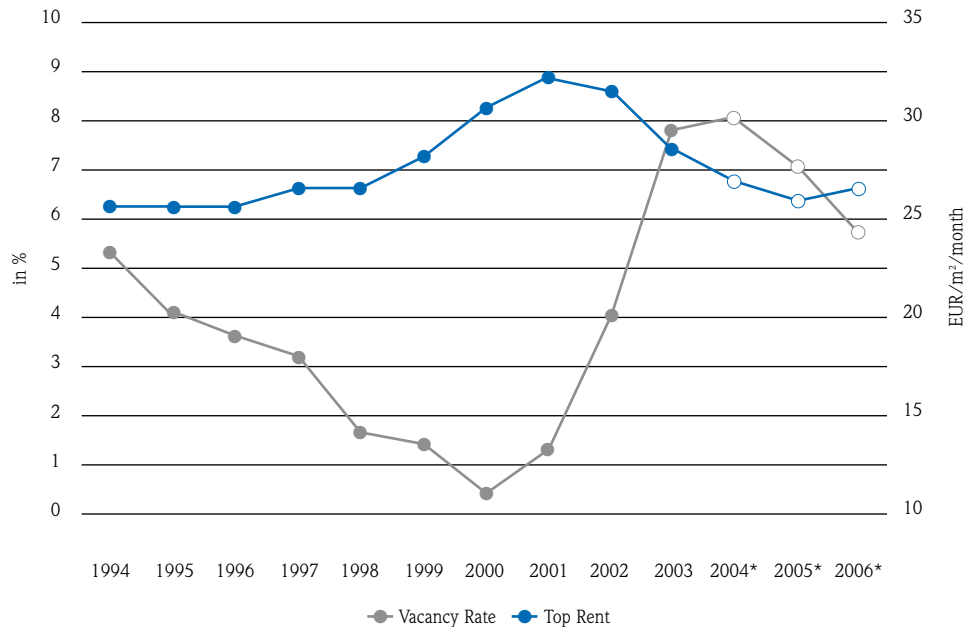
The numerous completions of as yet untenanted space led to an extreme increase in vacancies in 2003, despite positive net absorption. A slowdown in the increase of vacancies was observed only in the second half of the year, due to the drop of new construction activity and increasing demand. By the end of 2003, total vacancies incl. 180,000 m² of sub-let space rose to 1.56 million m². In the city area, about 1 million m² of office space is at present untenanted, an increase of 85 % on the previous year. The vacancy rate in the city area totals about 7.8 %, in the region as a whole, 9.1 % of office space is vacant. The overhang of supply in the periphery is concentrated on the commercial locations in the north-east of the state capital. The dramatic situation of the current oversupply is put into perspective when the overhang is seen in relation to the turnover of space. The present vacancy volume in the city area thus amounts to 2.4 times the average turnover seen in the past ten years.

An important percentage of the untenanted office space is well equipped (fit-out) space. In view of the current new construction activity and low net absorption, a further increase of the vacancy rate has to be expected for 2004. In particular in the city area, some properties are still under construction so that an additional supply push is to be expected there during the current year. As a result of the declining construction volume, vacancies will presumably reach their cyclical high in the second half of 2004.

Munich remains a tenants' market in the current year again. The rise of vacancies continues to put pressure on rent levels. The oversupply of space is making itself felt in particular in the case of properties where there are shortcomings with regard to quality of location and premises. At the end of the year, the nominal weighted top rent declined by 9.5 % to EUR 28.5 per m² on the previous year's figure.



Development of Vacancy Rates and Top Office Rents in Munich



The number of leases concluded in the top segment is low in relation to the overall market; the largest share of lettings is concentrated on the price segment from EUR 12.5 to 15 per m². A clear increase was seen for the conclusion of leases in the lower price segment. The weighted average rent amounted to EUR 13.9 per m² for the city area and EUR 11.9 per m² for the peripheral locations. In addition to a change of nominal rents, concessions on the part of landlords – e. g. in the form of rent-free periods or subsidies for tenant improvements – had an effect on effective rent levels in the present market situation. For the year 2004, we expect a decline of rents which is likely to slow down in 2005. A slight upward trend of rents is not likely before 2006.

Even though the volume of commercial transactions has fallen to about EUR 1.14 billion, Munich remains an attractive investment location. In 2003, open-end real estate investment funds as well as international investors were the major groups of buyers. There was particularly strong demand for modern, fully let properties. In view of the limited supply and the liquidity of real estate investors, prices for office properties and office and commercial buildings in city center locations remained at a high level.

Selected Investment Transactions in Munich in 2003

Property	Location	Floor Area in m ² (approx.)	Purchaser
Fünf Höfe, 1 st phase of construction	City center	50,000	DIFA Deutsche Immobilien Fonds AG
Tech Data Center	South	34,000	DB Real Estate Investment GmbH
Hufelandstraße/ Anton-Ditt-Bogen	North	17,900	DOBA Grund Beteiligungs GmbH
Mark XIII – Garden Office	Schwabing-North	11,300	WestInvest Gesellschaft für Investmentfonds mbH
Office building Innere Wiener Straße	City periphery-South	5,270	Real I.S. AG
Office and commercial building Bayerstraße	City periphery-South	4,660	Deutsche Capital Management AG
Inside München	West	4,200	Deka Immobilien Investment GmbH

RESEARCH, 2004



The Property Market for Retail Trading

Munich as a retail location is benefiting from the above-average purchasing power of its inhabitants in a nationwide comparison and the high retail trade centrality of the city. The Munich city center ranks among the most highly frequented retail locations in Germany.

The highest frequency of passers-by is recorded in Kaufinger and Neuhauser Straße, between Marienplatz and Stachus. The degree of branch networking has increased in recent years, above all due to rentals by international textile retail chains. In 2003, the situation in the city center eased somewhat. On the demand side, the need for space by the retail chains has meanwhile been largely satisfied, on the supply

side, the completion of Fünf Höfe on Theatinerstraße and of Maximilianhöfe on Maximilianstraße has led to an expansion of the supply of sales space for retailers offering premium products. The new supply will result in an appreciation of retail sites in these locations.

In addition to city center locations, the city has a healthy mix of retail and gastronomy sites also in city district locations. The small number of large surface shopping centers makes a major contribution to the functioning of the city. In 2004, the completion of the shopping center Riem Arcaden in the trade fair city Riem and of the Pasing Arcaden in 2007 will lead to an expansion of retail sales space.

Current prices for Commercial Real Estate in Munich

Type of Real Estate	Prime site	Forecast	Good site	Forecast	Average site	Forecast
Rents						
Office (EUR/m ² /month)	20–28.5	↻	15–18	↻	11–13	↻
Shop* (EUR/m ² /month)	180–215	▶	80–100	↻	20–35	▶
Yields						
Predominantly office use (%)	5–6	▶	6–7	▶	7–8.5	▶

*Shop rent criteria: Prime site = 1a location; good site = 1b location; average site = city district center

The price spreads or values given are dependent on the location, condition, equipment (fit-out), readiness for occupancy or on architectural design, and the extent of the possible use of the building. They represent values currently realized on the market. The forecast period comprises six months.

RESEARCH, 2004

The strong demand for 1a-locations has been accompanied in recent years by a long-lasting rise of rents, which came to a standstill in 2003. Rents in top locations stagnated however at a high level. Top rents of more than EUR 200 per m² were obtained in the consumption locations Kaufinger/Neuhauser Straße and in some instances in luxury loca-

tions such as Residenz- and Maximilianstraße. Highly frequented top locations will record stable rent levels also in 2004. The situation in 1b-locations in the city center is significantly more difficult. Space located off the flows of passers-by is in some cases affected by prolonged vacancies or can be let only at a considerable discount.

The Market for Office Property

The market for office property in Stuttgart comprises a stock of space of roughly 7 million m². In terms of the stock of space, the capital of the state of Baden-Württemberg ranks fifth after Berlin, Munich, Hamburg and Frankfurt. In terms of location, the office market is in principle limited to the city area; only the sub-segment Leinfelden-Echterdingen, which is situated south of Stuttgart and benefits from its proximity to the airport, is still counted towards the Stuttgart office market. In the north of the Stuttgart basin, the development Heilbronner Straße – City Prag has formed an independent office axis. The construction activities for the tunnelling of the Pragsattel will strengthen this sub-market further.

Compared with other German office centers such as Munich, Frankfurt or Berlin, Stuttgart is a relatively cohesive market with a regional character. The absence of the large, internationally active broker firms documents this fact. After Jones Lang LaSalle closed their branch in 2002 already, DTZ Zadelhoff Tie Leung was

the last international real estate consultancy firm to leave the city; the city's regional character is being strengthened.

The turnover of office space totalled 149,000 m² in 2004, up from the low level seen in the year before (133,000 m²). This was about 6.5 % below the average turnover performance of the past ten years of 159,000 m². However, the reported turnover volume includes a pre-letting by EnBW in the industrial park Fasanenhof-East (STAIR) of about 65,000 m²; the company will move into these premises only in 2007. This transaction will be accompanied by the vacation of existing space at present still occupied by EnBW. The turnover figure reported for 2003 has to be interpreted taking into account this “special effect”; adjusted for this big-ticket transaction, the turnover volume would, at 84,000 m², be clearly below the previous year's volume and would constitute the lowest transaction volume of the past ten years. Prospective tenants are hesitant against the backdrop of the economic situation. Lettings are often accompanied by the vacation of other space, net absorption is low.



Key socio-economic data of Stuttgart

Indicator	Unit	Value
Inhabitants (2002)	in absolute figures	588,477
Change of the number of inhabitants (1997–2002)	in %	0.5
Employees subject to social insurance contributions (2002)	in absolute figures	355,536
of which: in the services sector	in absolute figures	243,286
	in %	68.4
Unemployment rate* (December 2003)	in %	6.3
Unemployment rate* (December 2002)	in %	6.0
Purchasing power ratio (2003)	per inhabitant	118.0
Turnover ratio (2003)	per inhabitant	136.1
Retail trade centrality (2003)		1.15

*Local Labour Office District

Selected Office Leases in Stuttgart in 2003

Property	Location	Floor Area in m ² (approx.)	Lessee
Stuttgart Air-Park (STAIR) – EnBW-City, 1 st phase of construction*	Fasanenhof	65,000	EnBW
Office building (property A1.14)*	Stuttgart 21	20,000	Südleasing
Bülwobogen*	City periphery North/ Heilbronner Straße	8,100	Marsh GmbH
Office building	City	5,700	Allianz
Panorama 21/Dorint City-Center Stuttgart**	City periphery North/ Heilbronner Straße	1,750	BTI Euro Lloyd Breuninger
Officium, 1 st phase of construction	Vaihingen	1,200	Kreuzverlag
Colorado	Vaihingen	720	Geschäftsreiseservice/ Business travel service

*Pre-let; **Sub-let

RESEARCH, 2004

In Stuttgart, the supply side has reacted comparatively quickly to the imbalanced market development. In 2002 already, the increase of space declined by more than 50 % on the year before. In the year under review, a further decrease of the volume of completions by 50 % was seen; it fell to approx. 145,000 m². More than half of the new space erected in 2003 was pre-let.

The volume of completions is expected to decline further in 2004. It has to be assumed that no more than 129,000 m² of office space will be newly brought onto the market, most of which (approx. 75 %) was already pre-let at the turn of the year.

The rise in the share of pre-let space accompanied by the decline of construction volume reflects the comparatively stable development, which characterized the Stuttgart office market

already in the past; only a small share of new constructions is of a speculative nature. In relation to the stock of space, the volume of completions in 2004 is only 1.8 %. As a consequence, there will be no major additional pressure on the market for office space from the supply side.

The overhang of space increased to 375,000 m² last year. The moderate vacancy rate of roughly 5.4 % in a nationwide comparison is significant by Stuttgart standards and marks the high of the past ten years. The momentum of the rise of vacancies has nevertheless already slowed down on the previous year, when the vacancy rate more than doubled. In this connection, peripheral locations are significantly harder hit by the overhang of space than central locations. Against this backdrop, a large number of projects has been shelved and deferred indefinitely.

Selected current Office Projects in Stuttgart

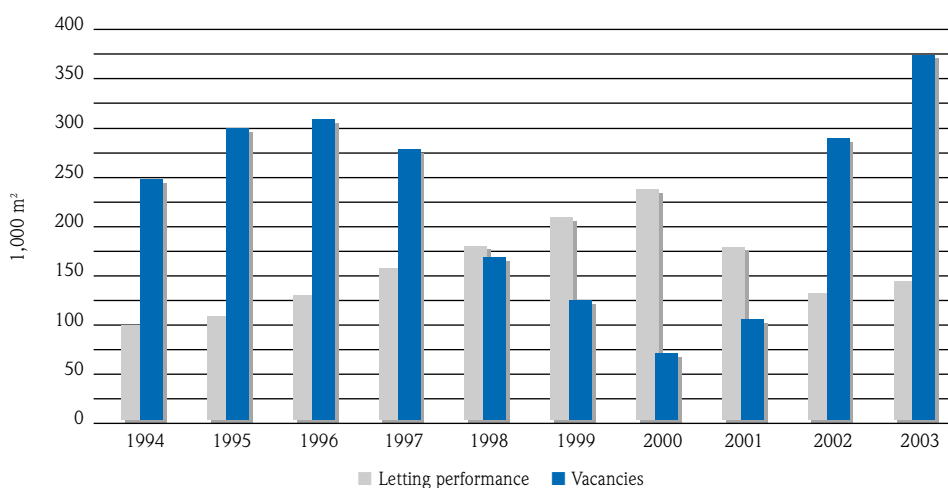
Project	Location	Floor Area in m ² (approx.)	Scheduled Completion
Headquarters of LBBW	Stuttgart 21	40,000	2004
Scala	City	8,900	2004
Office building of Deutsche Bank	City	8,400	2004
Media Forum, 1 st phase of construction	City periphery-North/ Heilbronner Str.	8,000	2004
Office building (Grundstück A1.14)	Stuttgart 21	25,000	2005
Bülowbogen	City periphery-North/ Heilbronner Str.	12,500	2005
Cannstatter Carré	Bad Cannstatt	10,000	2005
Stilwerk/Königsbau	City	12,200	2006
Löwentorcenter	City periphery-North/ Heilbronner Str.	10,000	2006
Stuttgart Air-Park (STAIR) – EnBW-City, 1 st phase of construction	Fasanenhof	65,000	2007

RESEARCH, 2004

The increased vacancies led to a further decline of rents last year also in Stuttgart, even though the decline was low in a nationwide comparison. At the end of 2003, the obtainable top

rent amounted to EUR 16 per m². The effective rents were pushed lower by incentives granted, such as rent-free periods and subsidies for tenant improvements.

Development of Office Space Turnover and Vacancies in Stuttgart



RESEARCH, 2004



All in all, Stuttgart in 2003 again measured up to its reputation as a stable office market with a low level of speculative construction activity and moderate fluctuations of vacancies and rent levels. In 2004, the discernibly lower volume of new constructions as a consequence of restraint shown by project developers should contribute to an alleviation of the market situation; a sustainable reduction of vacancies on the basis of a positive net absorption however requires impetus from the demand side. Top rents are therefore expected to slightly decline further over the course of the year and are likely to reach their cyclical low; they are expected to stabilize towards the end of the year. In peripheral locations, further rent discounts are possible. In addition, incentives are likely to be granted for the purpose of sourcing tenants, which will have an adverse effect on the earnings side.

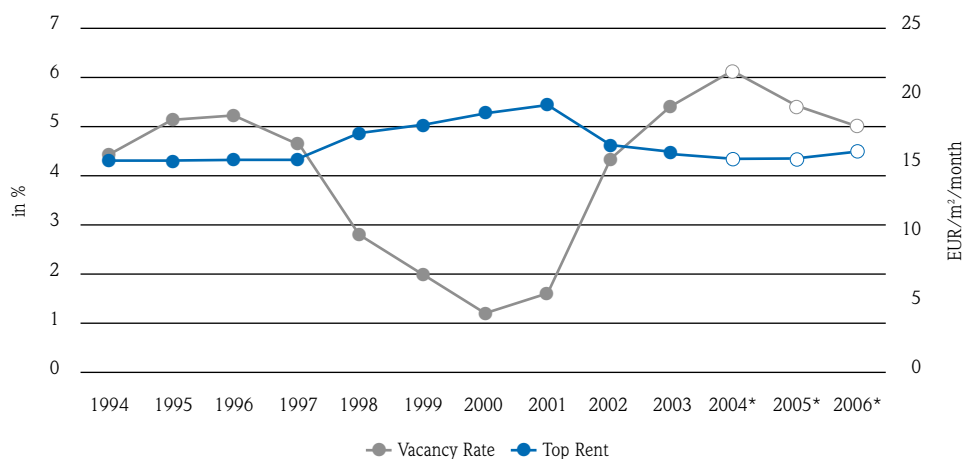
The Stuttgart investment market has enjoyed strong interest in recent years, in particular among institutional investors, such as open-

ended real estate investment funds. Capital seeking investments in real estate found high-quality new properties with a high letting level in Stuttgart. International investors are hardly to be found.

It remains to be seen to what extent Stuttgart will be able to win international investors in the future. Access to well-founded market information, such as that provided by qualified market reports, has been rendered more difficult for this group of investors after the withdrawal of the last international broker firm from the city.

Initial yields for top properties in top locations have developed stably in Stuttgart; at the end of 2003, they amounted to between 5.25 and 6%. Demand for top properties and the stabilization of market development that is to be expected will continue to preserve the level of top rents. In peripheral locations in contrast, yields may come under upward pressure.

Development of Vacancy Rates and Top Office Rents in Stuttgart



*Forecast

RESEARCH, 2004

Selected Investment Transactions in Stuttgart in 2003

Property	Location	Floor Area in m ² (approx.)	Purchaser
Officium, 1 st phase of construction	Vaihingen	24,500	DIFA Deutsche Immobilien Fonds AG
Kronprinzenbau	City	20,000	European Real Estate Opportunity Partners
STEP 5 – Tenovis	STEP, Gewerbegebiet Unterer Grund	15,000	WestInvest Gesellschaft für Investmentfonds mbH
Office and commercial building	City	11,000	Phoenix Real Estate Development/Zechbau Immobilien GmbH
Porticon	City periphery-North/Heilbronner Straße	10,500	DBV Winterthur Versicherungsgruppe

RESEARCH, 2004



The Property Market for Retail Trading

After Munich, the capital of the state of Baden-Württemberg is the most important retail center in southern Germany. Stuttgart benefits from high purchasing power coupled with high retail trade centrality. International chain stores are in particular looking for space in the prime location, Königstraße; as a rule, no compromise is made with regard to the choice of location. The degree of branch networking in the 1a-location of Stuttgart is accordingly on the rise. The polarization between 1a- and 1b-locations is proceeding. Calwer Straße in particular is suffering from this development, whereas the area comprising Stiftstraße, Kirchstraße, Marktplatz and Hirschstraße is increasing in importance for the high-quality retail trade. The significant supply overhang seen in Königstraße in recent years has mean-

while been reduced; here, again, the unsatisfactory economic situation of the retail trade is making itself felt. The time needed to market retail space is on the increase.

A major factor for the attractiveness of the Stuttgart city center as a retail location is the broadly based retail mix, which is ensured in particular by regional and local market participants. Against this backdrop, the closing down of long-established businesses is to be regretted. Positive impetus may be expected from Galerie am Schlossplatz. The Stilwerk store that will open in the city center should enrich the sector mix and contribute to further enhancing the attractiveness of Stuttgart as a retail location.

Current prices for Commercial Real Estate in Stuttgart

Type of Real Estate	Prime site	Forecast	Good site	Forecast	Average site	Forecast
Rents						
Office (EUR/m ² /month)	14–16	↻	11–13.5	↻	10–12	↻
Shop* (EUR/m ² /month)	95–200	↻	45–100	↻	20–50	↻
Yields						
Predominantly office use (%)	5.25–6	↻	6–7.4	↻	6.9–10	↻

*Shop rent criteria: Prime site = 1a location; good site = 1b location; average site = city district center
 The price spreads or values given are dependent on the location, condition, equipment (fit-out), readiness for occupancy or on architectural design, and the extent of the possible use of the building. They represent values currently realized on the market. The forecast period comprises six months.

RESEARCH, 2004

Due to lower retail sales and the meanwhile reduced demand overhang, rents in 1a-locations such as Königstraße have no further upside potential at their present high level; at up to EUR 200 per m² they nevertheless rank among the top rents also in a nationwide comparison. For the near future, it is to be expected that the level of rents will show a stable trend.

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DEGI Deutsche Gesellschaft für Immobilienfonds mbH
Weserstraße 54, 60329 Frankfurt am Main
Fon: +49 (0) 69/2 63-512 94, Fax: +49 (0) 69/2 63-517 65
E-Mail: research@degi.com, Internet: www.degi.com